CHAPTER 3 Small Business Environment: Managing External Relations Page 55
LEARNING OBJECTIVES After you complete this chapter, you will be able to: LO 3-1 Describe the elements that make up the small business environment. LO 3-2 Demonstrate your ability to scan the small business environment. LO 3-3 Apply the techniques of building legitimacy for your organization. LO 3-4 Navigate the techniques of social networking. LO 3-5 Explain the basic skills for handling a crisis. LO 3-6 Recognize how small businesses can achieve sustainability. LO 3-7 Identify the major steps in making ethical decisions in small business. • Summer Albarcha became a fashion blogger to draw attention to stylish clothes for women who wanted to dress modestly. Fashion is just one area where there are personal, national, cultural, professional, and religious interests jostling for position in the environment. How can you better understand the environment to better understand the forces that can affect your business? Kamran Jebreili/AP Images
Focus on Small Business: Summer Albarcha and the Controversial Skirt1 Sixteen-year-old Summer Albarcha was frustrated by how hard it was to find clothing that was modest but stylish, as befits a devout but contemporary Muslim woman. She decided to post items she found to Instagram to make it easier for other women to find great style. Her page (www.instagram.com/summeralbarcha/) grew to over 40,000 followers worldwide by 2014. The summer before Summer started studying at Saint Louis University, the founders of Mimu Maxi, a comparable Jewish site, sent Summer one of their signature items. As The Village Voice put it, "On July 12, the [Mimu Maxi] fashion line and the blogger decided to do a little collaboration. Albarcha posted a photo of herself to Instagram wearing a lime-green Mimu Maxi skirt, paired with a white collared shirt, a few simple accessories, and of course, her hijab. It looked smashing. Mimu Maxi re-posted it to its Facebook page and to Instagram."2 That was when things got complicated. While many liked the look and the spirit of cooperation, a group of Mimu Maxi subscribers got tremendously upset that a Muslim was depicted on the site at a time when relations between Jews and Muslims in the Middle East were extremely strained. The Mimu Maxi sisters responded, defending the decision and talking about the shared desire for modesty in Jewish and Muslim traditions. The exchanges made not only The Village Voice, but Look magazine, The Atlantic, The Daily Mail, and a number of fashion blogs. In the end, Summer saw the power of social media—for good or ill—and the need to be thoughtful about what she shares and how she shares it. The experience also reaffirmed for her the power of interfaith interaction, and the risk of facing opposition and even attack for doing something she believes in. But through the experience Summer also gained a new sense of empowerment, new Jewish followers, and other new fans of her sense of style, so that by February 2019, Summer's Instagram page had over 500,000 followers. See Summer's YouTube channel at www.youtube.com/channel/UCZaBtpOjMtP2gmLenyOGNIg. To hear Summer talk about the Mimu Maxi story, see www.youtube.com/watch?v=NFtI00mwy48.

DISCUSSION QUESTIONS

How would you describe the different types of relationships between Mimu Maxi and Summer's Instagram page? Page 56 Do you think the extremely negative reactions from a subset of customers or followers is a typical response? If not, what do you imagine is typical? How would you have handled the reactions of the upset followers?

The Environment of Small Business 3-1 Describe the elements that make up the small business environment. The moment that reaction to the skirt photo made Summer focus more intently on what was happening around her, she became aware of the environment—all of the forces outside the firm or in this case the individual entrepreneur (or entrepreneur-to-be). In Summer's case, the environment was the source of her inspiration (if you recall the BRIE model from Chapter 1, the skirt would fall under resources), as well as the data from friends, family, co-workers, and the media giving her the background on the nature and scope of the problems with dressing modestly but stylishly in contemporary society. Following the BRIE model in starting a business, the entrepreneur creates a boundary within the environment, setting his or her firm apart from the rest of the environment. In doing this, the entrepreneur gives the firm an organizational identity. Organizational identity is not just the name of a firm, but its basic description—what it does and where it does this. It can include formal elements like a registration with the state, or a website or email account with the firm's name on it, or a telephone number in the firm's name. But there are also important informal elements of identity. Often the firm and the entrepreneur are one and the same, but as the firm grows beyond the entrepreneur's direct personal control, for example, by adding a part-time employee or running an order-taking website 24/7, parts of the identity of the firm can grow beyond the entrepreneur alone.3 And as the firm establishes a track record for performance, that performance along with the goods or services it creates become key elements of the firm's and entrepreneur's identity. For example, it is hard to think of Famous Amos without thinking about his cookies. A key element of this organizational identity is its organizational culture, a set of shared beliefs or basic assumptions that demonstrate how things get done. Organizational culture also includes common, accepted ways of dealing with problems and challenges within a company.4 For example, Brian and Lisa Jolles are the married co-owners of Jolles Insurance in Ellicott City, Maryland. They recognized that they needed to set an example of healthy living for their employees in order to promote wellness to their insurance customers. They did this by establishing exercise as part of the organization's culture. Employees are encouraged to walk during lunch to control stress and hunger. Wellness is so much a part of the culture that the Jolles run an adult exercise boot camp for

employees, clients, neighbors, and friends three days a week, sponsor a website (www.wepromotehealth.com), and even sponsor a Health and Wellness Day at a local park, which initially drew 500 participants and since then has become a community-wide annual event.5 Being a small business makes managing organizational culture easier than in larger businesses because, in a small business, there is a lot of flexibility in terms of roles and expected behaviors, especially when the business is first getting started. In creating a firm using the BRIE model, the entrepreneur gathers resources from the environment. These can include information on how to do the business or whom to sell to, funding to run the business, space for the business, and raw materials for the business to use to make goods or deliver services. If the environment is rich with resources as it is during economic boom times, it can be easy to gather what is needed. In tougher times, such as during economic recessions, gathering resources can be harder. As entrepreneurs face resource constraints, they often learn to get by with less, or substitute a more readily obtained resource, or ask to borrow, rent, or trade for the resource. These techniques are called bootstrapping (which is covered in detail in Chapter 6) and are part of the culture of most successful start-ups. Page 57 The environment is at the core of exchange in the BRIE model, since exchange is literally the firm or entrepreneur dealing with the environment—buying, selling, or trading across the boundary of the firm. In the end, entrepreneurs carve a firm out of the environment by gathering resources, setting them up inside a boundary and trading or exchanging them across the boundary. In short, almost everything a firm does involves the environment. This chapter will help you understand more about the environment and its components, and how you can organize yourself and your firm to manage its relations with the environment. The Elements of the Small Business Environment Environment is a difficult concept to consider because it is so big. It literally includes the entire world outside yourself and your business. As an entrepreneur, or entrepreneur-to-be, how do you go about understanding it, much less using it to help focus and operate your business? The key is to have a model of the environment in mind, which can help you focus on a part of the world at a time. You may have seen a diagram of the environment like the one in Figure 3.1 in your introductory business or management text. The different entities are examples of the potential stakeholders in your business—people, groups, and organizations who have a concern about your business. It makes sense to the environment and stakeholders here to think about how this applies to small businesses. The external environment consists of everything outside the firm's boundary. When businesspeople talk about "the environment" and they are not talking about air, land, or water, this is the environment they are discussing. The easiest way to think about this very large entity is to break it into two parts. Those parts of the environment that directly and consistently touch on the firm are called the task environment, because these are the components that directly relate to your firm performing its basic business tasks. This part

of the environment is made up of those people your firm deals with every day—customers, suppliers, distributors, professional supporters like accountants and lawyers, subcontractors, allies and corporate partners, unions and lenders—as well as important groups you may deal with directly less often, but that are always on your mind, like competitors, government, media, interest groups such as trade and professional associations, consumer groups, environmental groups, and so forth. Page 58 The internal environment is defined by those people who are directly involved in the organization and own or are employed by the firm. This includes the employees, but also the board of directors or advisory boards of the firm. Whether on the board of directors or not, your investors are part of the internal environment too. Contracted professionals like outside accountants or attorneys can be considered part of the internal or external environment, as can be subcontractors of the firm and firms with which you have formal contractual arrangements. Some companies will see customers as integral to the organization and count them in the internal environment, while other entrepreneurs will think of them as outside the firm. Similarly, in today's highly networked world, your social networks and personal networks could also be considered part of the internal or external environment. For all of these "either/or" situations, the key is how you closely you want your business involved with and how much you want to consider the ideas of these different groups. As an owner, your first responsibility should be to "your business." If these professionals, customers, and networks are groups to whom you feel responsibilities at a level similar to your employees, then you should think of them as part of your firm's internal environment. Otherwise, they are part of your external environment. FIGURE 3.1The Organization's Environment Sources: Adapted from Angelo Kinicki and Brian K. Williams, Management: A Practical Introduction (New York: McGraw-Hill, 2009), p. 73; Brad Feld, Startup Communities: Building an Entrepreneurial Ecosystem in Your City (Hoboken, NJ: Wiley, 2012). It helps to organize them into related communities, represented by circles shown in Figure 3.1. One community we often think of as the public, which includes your customers, their social networks, media, interest groups, and professional and trade associations. Because you deal with these groups on a consistent and ongoing basis, you may find yourself having trouble recognizing new trends or changes among these members of your task environment. One simple way to do this is to take some time to reflect on whether and how business and relations have changed with each group over the past 6 to 12 months. Another simple way is to look at the professional and trade magazines for their industries. You can find these publications using the techniques given in Skill Module 3.1. In particular, look for articles that include terms such as trends or future in the title. Another community is typically thought of as the business community, and includes the firms you partner with, do business with, and compete with. It also includes the large businesses and banks. A major part of that community are the paid professionals on whom you depend, like your

accountants, lawyers, IT experts, and the like. SKILL MODULE 3.1 Finding Your Trade or Professional Association and Related Magazines In this skill module we will start with finding your professional or trade organization, and with that information in hand, find that group's publications. There are four ways to find the organizations: With over 35,000 local, regional, national, and international associations listed, the Directory of Associations (directoryofassociations.com) is a good place to start. An industry portal is a website with capabilities for multiple groups like current members, potential members, media, and policy makers. Portals offer multiple services such as disseminating documents, chat rooms, discussion groups, registration services, databases, and the like. Wikipedia maintains a portal list at https://en.wikipedia.org/wiki/Portal:Companies/Index_by_industry. If you are focused on consumer products, a list of associations and trade shows can be found at www.marketing-mentor.com/pages/trade-list. If that does not work, most public and university libraries have Gale Publishing's Directory of Associations, which lists tens of thousands of trade and professional groups. If you cannot find your trade group or association, there are three ways you could find the magazines that target specific industries and professions (called trade magazines). Two use an online search. The best online sources are WebWire's list at www.webwire.com/IndustryList.asp and Wikipedia's at https://en.wikipedia.org/wiki/Category:Professional_and_trade_magazines. Or you can try a general search on Google. Enter the name of the product or service. If it takes multiple words, like "child care," put the phrase in quotation marks. Add a comma and the word association. For this example, Google turns up groups such as the National Child Care Association and the National Association for Family Child Care. In addition, printed directories of publications by Bacon Publishing or Burrelle's Information Services can be found on many libraries' reference shelves. Page 59 One part of the environment that is important for small business founders is called the entrepreneurial ecosystem.6 These are the elements that make up the settings most helpful to promoting entrepreneurship. The specific parts of the environment of interest are the entrepreneurs in the community, the government, local universities, investors, mentors, service people (e.g., lawyers, accountants, etc.), and large companies. Having all these sources of help locally is the best, but using the Internet to link to mentors, university supports, or out-of-town investors can work, too. The other, even larger part of the environment is called the general environment. It represents the major forces on the lives of people and institutions like businesses, and even nations. Some components of this environment are easy to understand and apply to small business. For example, the economic sector includes the trends and current conditions of the overall market for goods and services, the availability of equity and credit, and employment. The technological sector includes innovation, invention, and modernization. The sociocultural sector includes cultures often based on

factors such as nationality or religion, and subcultures that are based on groups formed around shared interests within a larger culture. For example, think of the contributions of the hip-hop subculture to modern music and lifestyle marketing. The demographic sector includes trends in the mix of ages, races, and gender in society. For example, Jim Allsup had experience handling claims for Social Security, so he decided to start a business of his own using that experience. He did some research and discovered that as the baby boom generation (born 1946–1964) aged, the disability services market would grow right along with the retiree services market. From his work experience, he already knew that the Social Security Disability Insurance (SSDI) program was nearly impossible for people to deal with on their own, which delayed disability payments. He felt he could provide a valuable service to people to help them qualify faster for these payments, and in 1984 created Allsup, Inc. to do just that. Today, Allsup, Inc. is the nation's largest and most successful SSDI claims-assistance company, with over 300,000 claims processed.7 • Hip-hop is a subculture that has made major impacts on fashion, design, language, and music. Part of the sociocultural sector, these subcultures shape new directions for entrepreneurship. Comstock Images/SuperStock Another arena in the general environment is the political-legal sector. This sector reflects the broad trends affecting law, government, and politics, including changes in political parties and players, new legal and policy initiatives, and intersections of government, politics, or law with the other forces in the general environment. An example is when forces from the technological, economic, and international sectors led to the Affordable Care Act of 2010, a federally mandated changeover requiring everyone to have health insurance. Finally, there is the ecosystem/infrastructure sector, which reflects the physical world in which we live. This sector includes the natural components such as raw materials, weather, and ecological forces, as well as created components such as cities, roads, and other elements of the infrastructure. Changes here are sometimes unpredictable, like the highly destructive Hurricane Florence of 2018, but sometimes more predictable, like the worldwide decrease in forested areas over the past 200 years.

Environmental Scanning for Small Businesses 3-2 Demonstrate your ability to scan the small business environment. Big corporations have whole departments focused on scanning the environment and the firm's competitors. Most small businesses cannot afford to try that approach, but they can benefit tremendously from even a small amount of environmental scanning such as those shown in Skill Module 3.2. There are several low-cost and relatively fast ways to monitor the environment.8 They include: Page 60 Looking

for trends and future-looking articles in the trade and professional press of your industry or those of members of your task environment (see Skill Module 3.1). Asking your customers, suppliers, banker, attorney, and accountants what they see on the horizon for business in general, for business in your community in general, or for your industry or line of business in particular. Keeping notes on the things that bother you about the way work is done now, or what bothers you about how something has changed (whether a product, service, or process you deal with), and periodically doing some fast research (typically searching on the web) on what causes it and how others feel about it. For opinion websites, see Google's customer opinion websites and you'll find up-to-date reviews of top sites. Use the Flipboard app (or go to flipboard.com) to create a free custom feed of news from all sorts of brand-name sources including major magazines, newspapers, and tech-, science- and entrepreneur-related magazines. Flipboard will let you tag, save, and share things you like, as well as create custom feed based on your interests (like science, sports, politics, design, health, etc.).Skill Module 3.3 will show you how to do this. SKILL MODULE 3.2 Finding Out How the Small Business Economy Is Doing A key element in environmental scanning is assessing the overall environment and its trends. There are several ways to do this, from the simple to the complex. Simple approaches use a single or small set of numbers, like the Kauffman Indicators of Entrepreneurship (indicators.kauffman.org/) or the National Federation of Independent Business's Small Business Economic Trends (www.nfib.com/surveys/small-business-economic-trends/), which offers its monthly Index of Small Business Optimism. For these, your greatest concern is the trend, and whether it is rising or falling. At the other extreme, the Small Business Administration's Office of Advocacy offers its Quarterly Bulletins (www.sba.gov/advocacy/small-business-quarterly-bulletins) with a compendium of measures and the SBA's own analysis of them. One other key source of data for your state is the Office of Advocacy's Small Business Profiles for the States and Territories (www.sba.gov/category/advocacy-navigation-structure/research-and-statistics/state-economic-profiles), but these report data from one or two years earlier. If you want to compare entrepreneurship in the United States to other countries, you can look at the annual Global Entrepreneurship Monitor's global reports at www.gemconsortium.org/report. Bill Gates is famous as a trend-spotter (although he has made some bad calls too), but one of the tricks he swears by is "Think Week," where he goes away by himself and spends time thinking and researching to help him focus on what is coming and what is important to his business. Most of us can't afford a week off, but putting aside three to four hours every three months to review what you have noticed and what notes you have made can do a lot to achieve the major benefits of environmental scanning, and still leave time to get your own work done. Between those occasions, you can help make yourself aware by using apps like Flipboard to keep you up on what's happening in the world. Skill Module 3.3 shows you how to do this. SKILL MODULE 3.3

Scan Your Environment with the Flipboard App Flipboard is a smartphone app that gives you a constant feed of news—global, national, business, technology, cultural, and more. The app and the news it posts are free, and you can customize your personal newsfeed with topics of interest to you. The initial list of topics runs close to 150 of them, with examples like style, science, sustainability, skateboarding, Star Wars, sleep, and space (just to sample the s category). The steps to start are simple: Download and install the app on your smartphone and create your account. Select topics you want to include in your personal feed (which shows up as "For You" on Flipboard's front page. Grab a few to get started. You can always go back and scroll through the full list and edit your choices. (Useful topics include #Startups, #Entrepreneurship, #Trends.) Try a few things: Search for the name of your locality (for local news), people, or causes or companies you want to be kept up-to-date about. Tweak your settings in order to get notifications for news for your topics of interest. Check Flipboard when you have time or want to explore the world. Also use features like saving to "magazines" you create to keep track of things of interest. Do not be afraid to make a bad decision. The trick with all forward-looking choices is to use a "real options" approach.9 A real option is a choice you face to do or not do something. As an entrepreneur, you will often face situations like this. You may need to make a decision, but you often have time to research it or wait to see what happens. So to pursue a real options approach, you establish benchmarks to achieve, timetables for their achievement, and a formal review process to get you to make the tough "continue" or "stop" decisions. Microsoft initially dismissed the Internet, but it revisited its decision and changed course to make Internet Explorer the most used browser in the world. Page 61 Beyond trend-spotting, the other key scanning ability is to find the resources you need from the environment to build your business. The key to identifying resources comes from the acronym PROFIT, which stands for the six types of resources:10 Property/Physical: Buildings, land, equipment, raw materials Relational: Customers, networks, distributors, social capital Organizational: Systems, structures, operational procedures Financial: Money, lines of credit, crowdfunding, bartering Intellectual (also known as Human): Employees, contractors, advisers, consultants, and the skills the business needs or has Technological: Patents, trademarks, ideas, copyrights, licenses, access to technology or expertise networks To be successful, a start-up needs some of each of the six types of resources. You start by thinking about what resources you have. If you're not sure, look at similar sorts of businesses and analyze their resources. You may not be able to see all of them, but it is a start, and as you analyze more competitors, you'll begin to see different types of resources. Then ask yourself what kinds would be useful for your business. From that list, go back to your environmental scanning and look for the resources you need in your internal, task, and general environments. So now you know what the environment is, what its different components are, and how and where you might keep an eye on the

environment to help you prepare for the future. That leaves open how you deal with the environment on a daily basis as you begin or run your business. In the next section we look at the major techniques for managing your relations with the environment. LEARN MORE ONLINE Learn more about the topics above at these sites: Entrepreneur magazine (daily newsletter with general small business news): http://link.entrepreneur.com/join/signup Innovation Daily newsletter (on entrepreneurship and innovation): www.innovationamerica.us/ CultureBanx newsletter (news with a minority focus): www.culturebanx.com/

Skills for Managing Relations with the Environment Having learned about the different types and sectors of the environment, and the way to scan and analyze them, it only makes sense to look at how to apply that knowledge to help launch and grow your own small business. In this section we will introduce two approaches to managing relations with the environment, what is called external relations: Building legitimacy Developing your networks The goal of any small business owner is to manage external relations in order to create social capital. Social capital includes characteristics of a business, like trust, consistency, and networks, that help make business operations smooth and efficient. Small businesses high in social capital are more trusted, checked up on less, treated more fairly by regulators, and given the benefit of the doubt when problems occur.11 This social capital is capital in the same sense that cash or land can be. You can accumulate it or spend it, and the more of it you have, the greater the value of your firm. Social capital is the major component of what accountants call "goodwill," and you can find it on a business's balance sheet. Let us look at the techniques for managing external relations and building social capital. Building Legitimacy 3-3 Apply the techniques of building legitimacy for your organization. Legitimacy means that a firm is worthy of consideration or doing business with because of the impressions or opinions of customers, suppliers, investors, or competitors.12 Gaining legitimacy is one of the top challenges facing new small businesses, but it can be especially difficult for entrepreneurs seen as "different"—women, minorities, home-based businesses, businesses started by young people, entrepreneurs introducing a new technology, or people new to the area or industry. Achieving legitimacy is also a major goal of all new businesses or of existing businesses that have gone through a significant change such as getting new owners or changing their product lines. Achieving legitimacy means building trust among customers and other key groups. There are three general forms of legitimacy that you can develop—based on your people, based on your product, and based on your organization.13 Each is discussed in the following tables.

Remember that often the owner is the business in many people's minds. So, he or she is the most important element of social capital to customers and supporters of a business, such as bankers, lawyers, and suppliers. Having people in the organization—an owner, employees, or even media spokespeople—whom customers know and respect increases the firm's legitimacy. Making sure the people of your business always work in the best, friendliest, and most professional way also helps build the business. Some of the major examples of people-based legitimacy are given in Table 3.1. TABLE 3.1 People-Based Legitimacy IndicatorsTable Summary: Table divided into three columns summarizes factors responsible for getting business opportunities. The column headers are marked from left to right as: people; more legitimate; and less legitimate. People More Legitimate Less Legitimate Goodwill Have well-known or well-regarded owners, employees, supporters, or spokespeople Lack well-known or well-regarded owners, employees, supporters, or spokespeople Public recognition Firm, owner, or employees receive awards (e.g., "Small Business of the Year") or make notable achievements outside the business (e.g., president of the PTA or BBB) Have little or no public recognition Product/service name recognition Sell brand-name merchandise or services Sell non-brand-name merchandise or services Public reviews Have more reviews and more stars on Yelp, Google, or other rating sites Have fewer reviews and fewer stars on rating sites Business network membership Have membership in trade (e.g., National Restaurant Association) and business (e.g., BBB, NFIB, chamber of commerce) organizations Have no memberships in trade and business organizations Organizational size Have employees Have no employees Attire Wear uniforms or business attire Wear casual attire Also, many small business owners think that the most important source of legitimacy comes from an understanding of the product or service offered.14 If customers do not understand it, the company is unlikely to get any customer attention because customers may not trust it. Fortunately, most small businesses offer products or services that customers are already familiar with (what we will call an "imitative strategy" in Chapter 7). The goal then becomes making sure the customer knows about the details of the product—its high quality and environmental friendliness, its competitive advantage, how to use it—and has the assurance that it will be backed up by the firm. Table 3.2 describes many forms of product-based legitimacy. TABLE 3.2 Product-Based Legitimacy IndicatorsTable Summary: Table divided into three columns summarizes legitimacy factors based on product quality. The column headers are marked from left to right as: product; more legitimate; and less legitimate. Product More Legitimate Less Legitimate Customer assurance Have publicly stated guarantees, bonding, try-before-you-buy policies and return policies, etc. Have no publicly stated guarantees or return policies, etc. Experiential supports Offer documentation or demonstration Do not offer documentation or demonstration Customer service Provide customer service live or online Do not provide customer service live or online Quality standards Meet or exceed industry

standards for quality Fail to meet industry standards for quality Environmental friendliness Use recyclable materials, demonstrate green design, or have a low carbon footprint. Show no concern for the environment or natural resources Certifications Are certified for ISO, Baldrige Award, minority or women-owned business, professional licensing Are self-certified only Testimonials Present testimonials from customers satisfied with the product Provide no information from users Intellectual property Have trademarks, service marks, patents, or copyrights Have no trademarks, service marks, patents, or copyrights Industry leadership Set technological or service standards adopted by competitors Use or provide common technologies or services Media product/service visibility Achieve visibility for products/services through interviews, articles, placements, or columns in print or electronic media Provide little or no visibility about products/services in print or electronic media If the customer understands the product, the final key legitimacy factor is promoting knowledge about the organization itself. This might focus on telling about the history or visibility the firm already enjoys. It might come from published information that makes sure your firm looks like a substantial and professional business. Whatever gives customers confidence in the quality and survivability of the firm helps the selling process and in turn increases the all-important trust factor. Table 3.3 gives the key factors for organizational legitimacy. TABLE 3.3 Organization-Based Legitimacy IndicatorsTable Summary: Table divided into three columns shows factors for building confidence among customers. The column headers are marked from left to right as: product; more legitimate; and less legitimate. Product More Legitimate Less Legitimate Internet presence Are on several platforms: website, Facebook, Instagram, Twitter, LinkedIn Are on few or no Internet platforms Firm name The firm owns and uses its name as its domain name, e.g. Rabbitears Corp. is online as rabbitears.com rabbitears.wordpress.com, rabbitears.wix.com, etc. Media organization visibility Achieve visibility through interviews, articles, or columns in print or electronic media about the organization Receive little or no attention in print or electronic media about the organization History Have been in operation for a long time Are new Time commitment Are a full-time organization Are a part-time organization Hours of operation 9–5, 9–9, 24/7 1–5, 6–9 Days of operation M–F, 7 days a week One day, weekends only Phone line Dedicated to business Shared with home Legal form Corporation or LLC Sole proprietorship or partnership Physical setting Commercial site like a store, office building, or mall Home-based business; a business with no physical location; a business run out of a post office mailbox Public listings Google, Yelp, Yellow Pages, Dun & Bradstreet Business Profile, business directories White Pages or none Internet identity Use business name (e.g., katz@esb.com) Use generic name (e.g., katz@gmail.com) Graphic design (business cards, stationery, websites, etc.) Professionally done Personally done Partnering Partners with known businesses Partners with unknown businesses or no partnering Dealer network membership Authorized dealer or agent Unauthorized, gray, or black market

dealer or agent Code of ethics Adopt your industry's code of ethics, create one of your own, display the code No code of ethics adopted Page 63 Another approach to building organization-based legitimacy, which has grown in popularity since the original list was crafted, is the creation and display of a company code of ethics. In practice, good codes of ethics reflect the passions of the founder, the culture of the firm, and three classes of ethical standards found in research on existing codes of ethics.15 These three classes are: Employees Should Be Dependable Organizational Citizens (e.g., finish your work, follow rules and orders, be on time, do not swear, dress appropriately, etc.) Do Not Do Anything That Will Harm the Organization (e.g., protect confidential information, do not take drugs, kickbacks, or company property, etc.) Be Good to Customers (e.g., be truthful, be helpful, listen attentively, etc.) 3-4 Navigate the techniques of social networking. Across these three types of legitimacy indicators there are 30 characteristics, and few small businesses incorporate all these elements. Most of the time the small business owner will pick 2 or 3 legitimacy-building features from each of the product, organizational, and people indicator listings and then work to implement them. Once implemented, they should be locked in. Part of legitimacy and building trust comes from the consistency of a firm's actions over time. Repeating one legitimacy characteristic daily does more to build your social capital than changing the legitimacy characteristics stressed by the firm in hopes of finding the perfect mix of characteristics.16 Page 64 Developing Your Networks Another basis for building social capital is through building your network. There are two overlapping forms of network. Your personal network are people you have encountered in your everyday life—family, friends, classmates, workmates, and others you interact with in the physical world. Your social network are the people you know online.17 Many of the people in your personal network may well be part of your social network, but you may know many more people through your social network than you might from your personal network. Knowing how to grow and sustain each is a key skill for any entrepreneur. Both forms of networking are ways to work trust, reciprocity, and long-term relationships into your day-to-day business operations. They are ways to build your company's expertise by convincing others to share their skills and knowledge with your firm. The most successful owners are those who recognize that others have the expertise needed and establish relationships that give them the benefits of that expertise. In many of the stories of small business owners in this book you will see how success hinges on getting others to help you. You might be new to your business, industry, or locality, but, with the right expertise, your business can improve its chances of succeeding. The key is building a network of people who trust you and are willing to help you,18 and who can depend on you for help and advice in return. Through this mutuality, social networking helps build long-lasting relationships. Page 65 In both types of networking, you seek to build your reputation because reputation will have an impact on your community; if it is positive, it will increase trust and create a culture that

enables people to make good decisions. Both forms of networking help all those aspects of small business by building your reputation as giving the most expert business goods or services and as being an important community resource. Effective networking of both types can help your long-term reputation as a business owner by showing others who you are19—a consistently top-notch community player. Page 66 Developing Your Personal Networks So, look at the contact list on your cell phone. Who is on it? What is your relationship with each person or organization? Those numbers are the easiest way to start thinking about and analyze your personal network. Table 3.4 talks about the major categories of your personal network. As you realize the types of personal network connections, you can better think about how to grow your personal networks. TABLE 3.4 Sources for Network ConnectionsTable Summary: Table divided into eleven rows shows list of networking mediums for entrepreneurs. The row headers are marked from top to bottom as: family; friends and neighbors; kids; bank; customer contacts; school; hobbies; business associations; other organizations; work; and small business support organizations. Family: Start here, and ask your parents, grandparents, and extended family. Include in-laws. Friends and neighbors: Include your friends, and friends of friends. Kids: Think about the people you've met through your children at their school and in their extracurricular activities. Bank: You probably have a bank account, possibly several. Get to know your bankers and ask them for introductions or referrals. Customer contacts: You are a customer, patient, or client to doctors, dentists, insurance agents, lawyers, and small business owners of all sorts. They know you and because they're in business, they may have the kind of contacts you need. School: Think about students, faculty, and support organizations where you or your family have gone to school. Many colleges have alumni offices and entrepreneurship or small business development centers, and these can put you in touch with helpful others. Hobbies: Hobbies often bring together people with diverse backgrounds. That makes them a great place for finding different sorts of contacts. Business associations: Most communities have some form of chamber of commerce. Most industries and professions have associations. People join these in order to network. Ask the officers of the chamber of commerce or the association for referrals. Be willing to assist others who ask for your help. Other organizations: Religious, civic, community, and political organizations often publish member lists. Go over these to see if you recall people who have the business ties or expertise you need. Work: Consider co-workers, bosses, customers, suppliers, and people in other firms with whom you deal. Note that work contacts can be problematic. Check company rules or expectations first. Many firms consider such contacts a conflict of interest. Small business support organizations: There are always organizations dedicated to small business such as the National Federation of Independent Business, National Small Business United, and the National Association for the Self-Employed. You can get lists of these by searching Google's directory for "small

business associations." Many of these organizations have local chapters, and all encourage members to contact and help one another. What should you expect in terms of your personal network? Social psychologists tell us some basics, many of which we know from experience.20 Not all contacts are equal. There are our closest friends, which can include family, and often number up to 5 people. Adding to this is the next layer of close friends, which might number as high as 10 to 15 people. General friends might number up to 50 people, and acquaintances up to 150. The more extroverted you are, the more likely you are to approximate these numbers; the more introverted, the smaller your circles will be at each level. The amount of time you spend will typically decrease as you go from inner to outer circles of friends. You may spend a few minutes each week, or even every day, with your closest friends, and connect with acquaintances by phone, email or social media only every month or two. This sort of pattern was evident for entrepreneurs surveyed as part of the Panel Study of Entrepreneurial Dynamics (PSED). In the PSED, most prospective and early stage entrepreneurs reported having one or two people in their helping network, and they typically reported around three contacts a month across their whole network of folks providing help.21 Information is the number one type of help sought from others, followed by introductions to others. Occasionally sought were requests for specific sorts of help—financing, business services, personal services, or resources. Page 67 Keep in mind the most powerful way to connect is face-to-face (about 34 times more powerful than email22). Phone is next and works best when the tone and context of your message needs to be heard. Email works if you're looking for a reaction or reply and the topic needs some explaining. If you need a reply but the thought is easily expressed, texting can work. Social media are the channels people view most irregularly, and they are also the channels that get the least consistent responses from recipients; so they are the least powerful way to ensure a connection to another person.23 Knowing whom to ask, what to ask for, and which channel to use when asking is only part of the story. The other part involves building the relationships and encouraging others to help you. One of the key parts of social networking is actually seeking the help or advice of others. Asking for help well is a skill. A little advance thinking and preparation can dramatically produce positive results. Skill Module 3.4 shows you one of the most successful methods for asking others for help. SKILL MODULE 3.4 Asking for Help The best people to ask for help are often the people who are the busiest. Knowing this, some small business owners shy away from imposing. In reality, there is no substitute for expertise, and getting it from others is one of the most efficient and effective ways to do it. Building on the ideas of Paula Caproni,24 here is an eight-step approach to asking others for help: Request from people you trust: Either ask people who already know you, or establish a relationship with the people you want to ask before seeking help from them. This can be as little as a few minutes of talk to find common ground or common friends at a chamber of commerce reception, but it is an

important foundation for the relationship. Ask for specific behavior: Your request is more likely to fit someone's schedule if it is specific and something that has a definite end. So, asking "How can I get an introduction to someone in purchasing at BigCorp?" is more likely to get a positive response than, "What can I do to sell more?" Do not be defensive: When explaining what you need, do not blame others for your needing help. And when asked questions by potential helpers, do not get upset or accusatory. Often they need to know what you have tried, how you did it, and how it worked out. They also often need to know what you are capable of doing, or what expertise you bring to the situation. Give concise answers and show your willingness to answer more. After all, they need the information to help you. Do not overreact or underreact: Think of your regular conversations with good customers or friends. That kind of give-and-take and that kind of emotional level is what a good asking-for-help exchange sounds like. While being brief is good—after all, time is money—if you sound like you are holding back or are unwilling to talk, it does not help build the relationship. On the other hand, going overboard with praise and information can come across as phony or irritating. Think of regular conversations, and try to emulate them here. Summarize what was said to ensure understanding: When your conversation is nearing the end, repeat what you understood as the advice. It is fine to put it in your own words. The goal here is for you and the person helping you to know that each of you understood the other. If you are going to try the advice on your own, you want to be certain you understand what to do, how to do it, and maybe even why to do it that way. Summarizing is a great way to confirm all that and show how attentive you have been. Explain what you are going to do about feedback: People you approach as experts often take part of their satisfaction from knowing that their expertise has made a difference—especially in your business, but at least in your thinking. If you can tell such people how you will use their help, it can provide them with an immediate reward. If you are not sure what action you will take, be honest about this, but also point to the new things you have learned or discovered from the help they offered. Thank the person for the input: This is in part providing an immediate payout to the person helping you, but also laying a foundation for future contact. Provide a simple thanks and mention how you hope to return the favor or help someday. A good handshake and a smile, and you are ready to get back to business. Page 68 Follow through: It is always a good idea to inform people who tried to help you about how your efforts came out. Tell them how you solved your business problem in general terms. If their help was used, mention this. Thank them for their help (whether you used it or not). Finish with a mention of your appreciation of their help and your willingness to help them in the future. Remember, social networking makes a difference in how you'll conduct business every day. It means asking for help when you need it, respecting the other person's time and expertise, and most importantly being willing to reciprocate if asked. Mutuality is the idea and action of each person helping the other. Part of building social capital with social

networking comes from the help people in the network can provide one another. Why help? Reasons may be making a new friend or making a friendship stronger, creating a relationship that can lead to future business or friendship, having a chance to demonstrate expertise, incurring a debt for future repayment, or even just wanting to help others. Helping others means you understand the idea of positive community impact, trust, and relationships—critical success factors in building an ethical business. Building social capital through social networking involves giving information, letting people know they belong, and providing social support and approval. You have to take the time to build and keep up your relationships with others in your network. This is called personal networking, which means small business owners interacting with others in order to build relationships useful to the business. Key skills for effective small business personal networking are given in Skill Module 3.5. SKILL MODULE 3.5 Personal Networking Skills Personal networking is a skill like any other. In business you often know the kind of situation you are about to go into or are likely to face. Knowing this, you can take several steps to prepare yourself to socialize with others as a basis for establishing a business relationship. Below are top suggestions of successful alums of our entrepreneurship program and the advice of experts. Emily Muhoberac, COO of Sapper Consulting and Adjunct Faculty at Saint Louis University Go with a friend. While I think everyone should experience going to a networking event alone, you can ease your anxiety by attending your first event with a friend or colleague. Not only will this help you at the event, but it will also hold you accountable to actually attend (like a gym buddy). Remember that networking might not help you now. It's like investing time or money into most things that are worthwhile–you're not likely to see an immediate return. Many of the opportunities I've received came months or years after initially meeting the contact at an event. Admit you don't know all the buzzwords and jargon. Pretending to know what's going on won't make you look smarter, and won't help you out in the end. You'll end up either admitting you don't know at an inopportune time, or miss out on valuable knowledge that would have helped you grow. Check the RSVP list to pre-network. Most networking events have public RSVP lists where you can see who will be attending. Make connections before you get there, reaching out to guests that you'd like to talk to or have common interests via LinkedIn. Make a list for the meeting to help focus and remind you who you want to meet and why. Byron Abrigg, Cofounder and COO at Mission Control GG Play your student card. There are very few executives or professionals who are not willing to give some time over a cup of coffee to offer some career advice and life lessons . . . because you're a student. As soon as you graduate, you are now a fellow professional out looking for something (a job, a promotion, etc.). Use your student card to get in as many conversations as possible while you can before it expires! Ask for money, get advice; ask for advice, get money. When networking, the only thing you should be looking for is advice. When you genuinely ask for input and advice, you build relationships and make others feel

welcome and appreciated. It's only when you do this—build genuine relationships up front—that you can truly reap the dividends later. We raised our first $100K and lined up a dozen industry advisers for our first start-up simply off of genuine relationships we had built with people over the years where we never asked for anything but advice. Page 69 Advice from networking experts:25 Know who you are. Craft a 30-second spot about yourself and your firm, and practice it until it sounds like a natural expression of your interests. This is often called an elevator pitch, and Chapter 8 (Business Plans) gives details on putting together a winning one. Bone up on small talk. What do you say after hello? A good place to start is to give your elevator pitch and close with why you were looking forward to meeting the person. If you think your business can help the other person's, talk about that. If the other person wants to limit the conversation to social topics, go with that. To help with chitchat in those situations, make sure you look at the local newspaper (sports section included) on the day of the event, and take a look at The Wall Street Journal or USA Today front page or your Flipboard feed if you can. Do not forget why you're there. People tend to gather in groups of like-minded folks. This can mean that all the golf players are together talking strokes, but it can be deadly if it means that all the women entrepreneurs are gathered together and not networking with the male business owners. If you are at a networking event and you start feeling comfortable, check to make sure it is not because you have actually stopped networking. Make the connection. The key to making networking work is to make the personal connection. Businesspeople expect to be approached by others at events. Do not be shy. Just walk up and say hello. If necessary, ask a friend or an event organizer to make the introduction, but, however you do it, meet the people. Follow up. After you meet someone at a networking event, periodically keep up the contact through emails, phone, mail, or personal contact. If you can offer help or information, that is the best reason to stay in touch. Remember that the place to start thinking about your personal network is your cell phone contact list. A basic one is built into your phone, and it can connect to even more powerful versions in the cloud. If you use an Android phone, the cloud version is Google Contacts. For iPhone users it is Contacts on iCloud. If you have a version of Microsoft Office, you can use Outlook. The cell phone contact list can directly connect to programs that can help you build and manage your list, such as Camcard which scans business cards and adds them to your contact list, or full-fledged customer relationship management (CRM) software platforms like Zoho CRM, SuiteCRM or HubSpot which can let you organize your lists, get reminders when to re-contact someone, and create mailing labels.26 Also note that your cell phone contact list can be connected to social networking apps like LinkedIn to help add more information to your regular contacts. The goal is to make sure you keep track of your social and business contacts. The best approaches help you identify whom you need to contact to keep relationships fresh. This is because networking is one of the key skills for all business owners, female and male,

minority and majority, high tech and no tech. Because in the end, business is all about making the sale and the sale depends on making a connection with customers, and that connection is what networking is all about. Developing Your Social Networks In personal networking most people probably top out around 150 or so friends and acquaintances. The power of social networking, however, becomes readily apparent because if all 150 friends and acquaintances are on a social media platform like LinkedIn or Facebook, and they have their 150 connections, you may be 1 connection away from 22,500 people! And broadcasting your interests to thousands, even millions, of people is much easier, faster and cheaper on social media platforms than in the world of personal networking. The challenge for entrepreneurs considering developing their social network is to decide which networks to pursue, and what is the best strategy to use. The key factor for the small business owner is realizing where their target customers are. If you are looking to sell to consumers (a B2C business), then Facebook, YouTube, or Instagram are crucial to your strategy because they each have 1 billion users or more globally. YouTube is key if you generate videos, Instagram for photo-driven messaging, and Facebook handles both as well as textual messages. If your competitors have company pages on those platforms, you might want to consider setting up shop there too. If you are focused on selling to businesses (yours is then a B2B business), LinkedIn is the top platform. Note there are also dozens of specialized social media platforms that typically have smaller numbers of more highly active users, like Buzznet for music, Q&A platforms like Thumb or Ask.fm, or business platforms like Xing. Google "social media channels" to find the latest articles on different social media platforms. Page 70 A lot of entrepreneurs have their business on multiple platforms and many find Facebook, LinkedIn, and Twitter to be the "Big 3" of social networking. A number of businesses have a company or product page on Facebook and LinkedIn pages for the company, the owner, and even key employees. Today there are all sorts of free and freemium platforms to help you manage your message on multiple social media sites, such as Hootsuite.com and Buffer.com. These platforms let you create, schedule, and post one message on all your platforms, simplifying your ability to see and track what you are doing. Regardless of the site or sites you use, there are four best practices that can help any online social networking effort become more successful (whether you are pursuing it online or in person): Make it easy for people to contact you (this often means giving one of your email or social network addresses). Take the initiative to ask others on the network (including colleagues from school and work, and friends and family) to link with you and then help them out online. Find and link up with network mavens—people who like to gather and share their enormous networks—and help out whenever you can.27 Keep at it—successful online networking requires consistent involvement. It can be weekly, but it needs to be every week. Electronic social networks are usually fast and easy to develop, as well as often free. Face-to-face social networks often

have membership costs, but offer the all-important personal touch as well as those all-important local connections. When either type of social network works, it can produce results from unexpected sources. While the personal connection from face-to-face networking is always a great thing to have, if you cannot easily develop a large face-to-face network in your community, industry, or market, electronic social networking is the best way to go. LEARN MORE ONLINE Learn more about the topics above at these sites: Facebook for Business advice search: www.google.com/search?q=how+to+use+facebook+for+business Advertising on Google advice search: www.google.com/search?q=advertising+on+google Advertising on LinkedIn advice search: www.google.com/search?q=advertising+on+linkedin

Skills for Making the Right Decision As an entrepreneur you will make all sorts of decisions, from right now as you are thinking about the kind of business you want to start and how it will operate, and into the future as your business launches, grows, and hits the high and low points all businesses—and people—face. Thinking ahead of time about those decisions and situations can help you prepare yourself and your firm for the future. There are three areas where this is particularly important: Handling a crisis Achieving sustainability Making ethical decisions Handling a Crisis 3-5 Explain the basic skills for handling a crisis. Page 71 While some challenges come slowly and give the small business owner a chance to think about how to choose, all businesses sooner or later face some sort of crisis. A crisis is a situation that poses a major problem for the business or its people, in which the survival of the business is at stake, and immediate action is necessary.28 For owners, knowing what to do during a crisis is a very specialized and emotionally demanding form of decision making. Small business owners are optimists about their businesses, and it can be wrenching when something goes wrong. When the crisis is in full swing, knowing what to do is critical. The gold standard for crisis leadership comes from Norman Augustine,29 former president of Lockheed Martin—a Fortune 500 company. Although originally given for large businesses, the six steps to follow can be readily adapted to small ones.30 • For a small business, an accident like this can become a crisis. Knowing what to do can help minimize its impact on your firm, customers, and employees. Denise McCullough The steps are: Admit you're in trouble—quickly. It is better to say "If there is a problem, I will find it and fix it" than to delay an admission until fact-finding is done. Get to the scene as soon as possible. Your job? Show caring and accountability. Communicate facts you know (and those you don't) to employees, customers, and suppliers. Have one person serve as the firm's spokesperson. It is best if it

can be the owner, but an articulate employee, family member, or outside professional (e.g., lawyer) can stand in. Separate crisis management from the everyday management of the firm. If you are doing both, try to take time to do each separately. Delegate as much as possible of the everyday management to employees or family while you concentrate on dealing with the crisis. Deal with the crisis quickly. Take steps to solve the problem, and make the process of dealing with the problem as open as possible. Managing crisis is a difficult but necessary skill. Obviously, anticipating problems and avoiding them or handling them before they become major is a better approach, but only 1 business in 10 has a disaster or crisis plan.31 To help small businesses with crisis planning the federal government has created a new website (www.ready.gov) to bring all these resources together in one location. The government recommends a three-step process for preparing for disasters: Plan to stay in business (use a disaster plan like the SBA's from www.sba.gov/business-guide/manage-your-business/prepare-emergencies). Talk to your people (plan with co-workers, practice your plans, and have a crisis communications approach in place). Include preparing a "dark website" with key information that you activate only during an emergency.32 Protect your investment (use insurance—see Chapter 16, backup procedures and supplies, etc.). In the end, the best way to manage a crisis is to plan ahead, but in the middle of a crisis, the key for a small business owner is to keep calm, take care of the people involved, and keep people informed. Achieving Sustainability 3-6 Recognize how small businesses can achieve sustainability. Researchers are finding human trash at the bottom of the oceans. Plastic grocery bags get caught on fences miles from cities. We are all seeing the problem of too much garbage and not enough recycling. Sustainable entrepreneurship is an approach to the operation of the firm, the line of business of the firm, or both, which identifies or creates and then exploits opportunities to make a profit in a manner that minimizes the depletion of natural resources, maximizes the use of recycled material, improves the environment, or achieves any combination of these outcomes. Positive outcomes along these lines are described as "greener," so the approach is also sometimes called green entrepreneurship. As a nation, we have increased our greenness over the past 20 years through a variety of actions. We drive more fuel-efficient cars today because of government-mandated fuel efficiency standards. Companies and individuals do more recycling of trash. The latest effort to replace regular light bulbs with compact fluorescent and LED lights is another green effort. Page 72 Entrepreneurs can do quite a lot to manage their firm's impact on the environment. Recycling is one approach many businesses use. According to the National Federation of Independent Business (NFIB) poll, recycling among small businesses varies, depending on what is being recycled. Recycling rates for the major types of trash are given in Table 3.5. TABLE 3.5 Recycling RatesTable Summary: Table divided into two columns compares rate of recycling waste products. Column 1 notes the material with column 2

showing the corresponding recycling rate. NFIB Poll Question: Does your business recycle the following? Paper 45% recycle Cans 45% recycle Plastics 35% recycle Glass 27% recycle Source: National Federation of Independent Business, Small Business Poll, Waste and Hazardous Materials 7, no. 2 (2007). The U.S. Environmental Protection Agency believes the rates continue to rise. A great way to start thinking about minimizing waste and environmental degradation is to run your thoughts about your business through a "green audit" like the one developed by the U.S. Environmental Protection Agency (www.epa.gov/compliance/audit-protocols) or those developed to obtain ISO 14001 certification for environmental management systems (try searching for "ISO 14001 checklist" to find out more). Minimizing paper use, using telecommuting and electronic communication, replacing paper copies with web-based documents, and buying products for the business made from recycled materials or products that can be recycled are all ways to create a more sustainable enterprise. The business itself can focus on ways to enhance others' sustainability efforts and make a profit doing it. Have you read about buildings in your area being LEED certified? It stands for Leadership in Energy and Environmental Design and is a certification standard from the U.S. Green Building Council for buildings that are more environmentally friendly (www.usgbc.org/leed). Construction companies have found this area to be a new source of sales and profits, as new buildings are designed to be more energy efficient and recyclable, and older buildings get retrofitted for energy savings and healthier internal environments. Similarly, green retailing, selling products that have a better environmental footprint, is a growing segment. Whether talking about greening your own business or making a profit from helping others get greener, sustainable entrepreneurship is another method for managing external relations with customers, governments, and the physical environment. LEARN MORE ONLINE Learn more about the topics above at these sites: The EU's Green Entrepreneurship website: greentproject.eu World Bank's green entrepreneurship page: http://www.infodev.org/connecting-green-entrepreneurs Feedspot's list of green business blogs and websites: https://blog.feedspot.com/green_business_blogs/ Making Ethical Decisions 3-7 Identify the major steps in making ethical decisions in small business. Today so many of the issues that people have with business are ones with an ethical or moral element. Think about when you discovered Facebook was selling your personal data to companies for advertising purposes, or that some apps track your every swipe, or that a food company uses additives that lead to high blood pressure, or that a drug company uses animals for testing new products. How would you feel about a Coke machine that charges you more the hotter the outdoor temperature is? Page 73 Ethics comprise a system of values people use to determine whether actions are right or wrong. We consider ethics in determining whether a decision we are about to make is good or bad. And, we make judgments about actions—something is good or bad; someone is right or wrong—based on

our own personal ethics. An ethical dilemma occurs when a person's values are in conflict, making it unclear whether a decision we're thinking about making is right or not.33 An ethical dilemma also occurs when there are several different options for a decision we have to make and the best choice isn't clear. Of the many environment managing techniques discussed in this section, making ethical decisions is undoubtedly the hardest. Part of it is because the ethical problems that keep entrepreneurs up at night are ones for which there is not a satisfying yes or no answer. LaRue Hosmer was initially a professor of entrepreneurship who came from a family logging business. He later turned his eye toward the challenge of making ethical decisions in business. He came up with a model widely used today, but it is focused more on big businesses than small ones. Adapting his approach34 to small business, making ethical decisions involves three steps: Define: Define the moral problem. Generate: Generate alternatives that could meet the ethical, legal, and economic goals every business must balance. Implement: Pick the best alternative you and your business can live with and implement it. The model is given in Figure 3.2. As you might expect, although the steps sound easy, doing them well requires working through some complicated issues. Let us look at each step in turn. FIGURE 3.2The Ethical Decision-Making Model for Small Business Source: Adapted from LaRue T. Hosmer, The Ethics of Management, 6th ed. (Boston: McGraw-Hill/Irwin, 2008). Define the Moral Problem: To determine the moral dimension of a problem, you need to carefully think through the problem. For small businesses, there are typically four questions used to define the moral problem under consideration: Who will be hurt (and how much)? Obviously more hurt is worse, but you also need to consider how likely recovery is and how long will it take to recover. Who will benefit (and how much)? A tiny benefit for many is often of little use—think of those class action lawsuits that end up giving each of millions of claimants a few dollars off their next purchase. The overall size of the benefit needs to be weighed against the number who benefit, and balanced against the costs of the harm done to others by the solution. What do you (or your firm) owe others? When you make a decision, it should reflect your real or presumed obligations to people and institutions in your firm and in its task environment. How you act under pressure is seen by many as the acid test of who you are and what your firm is about. What do others owe you (or your firm)? Just as you and your firm make a commitment to others, they make commitments to you and your firm. Depending on the decision, there may be obligations from others or forms of support you can expect that help make doing the ethical thing easier on you or the other party involved. Page 74 Generate Alternatives That Meet Your Ethical, Legal, and Economic Goals: Once you have defined the moral problem you face, you need to generate a variety of alternatives to handle it. These alternatives need to be evaluated to find the best one. At this stage, it makes sense to compare the alternatives to the ethical, legal, and economic standards of your firm, industry, and community. Start with economic

standards. Often economic dilemmas crop up in business because the answer sought by the other person would cost your business money. Sometimes the amount of money is more important symbolically than in reality. Have you seen a friend who will drive several miles to save a penny on a gallon of gas? Do the math. A typical gas tank size is 15 gallons and the average gas mileage of cars in the United States is 27.5 miles per gallon. If gas is $2.50 a gallon, then each mile costs 9 cents, and saving a penny a gallon makes economic sense only if the round-trip to the cheaper gas station is under 1.66 miles. Still, many people will pay more rather than feel they were taken advantage of. That sense of being taken advantage of is a tough emotion to set aside, but in the end, part of being a professional in business, and part of being an honest decision maker requires that people do that. There is no easy way. It takes courage to do the right thing, and self-control to quash the emotional desire to lash out or get even. Legal standards seem easy at first. If the answer is against the law, simply do not do it. But in reality, everyone's compliance with the law is less than perfect. Think about your classmates. How many occasionally drive above the speed limit? How many have a couple of pirated songs on their smartphone or iPod? Could one of your classmates with a part-time business have claimed more business expenses on a tax return than could be documented? Realize that even generally law-abiding people have their lapses. If the stakes or emotions are high enough, or the risk of being caught or being prosecuted is relatively low, people you would consider law-abiding could make a decision to do something illegal. There are times when doing what is legally supported may not be the optimal solution. Consider EntreQuest (now called Shift - www.shiftthework.com), a Baltimore training firm with a famous example. When starting out, the two cofounders, Joe Mechlinski and Jason Pappas, heard through the grapevine that their first, biggest, and at that time only client was going to break its contract with EntreQuest. If that happened, Joe and Jason could take the client to court—but it would cost money, and even if they won, how would the client (or prospective clients) feel about EntreQuest? Jason and Joe had the law on their side, but decided to be proactive and meet with the client to find a better solution. It worked, and the resulting new contract made EntreQuest even bigger profits than before.35 So, when thinking through the legal standards, recognize that having the law on your side may feel good, but may not be workable as a solution. You can find yourself in the legal "right" but still unable to make a viable business decision by pursuing legal recourse. Still, the simple advice that you should not break the law knowingly and willfully makes a lot of sense as a legal standard for making moral decisions. That leaves the ethical standard. Most professions (e.g., social workers, MDs, pharmacists, lawyers, etc.) and many occupation-specific organizations (e.g., Realtors®, Society of Professional Journalists, Association for Computing Machinery, etc.) have codes of ethics to help clarify their standards to members and the public. But there are several areas in business that do not have explicit standards, or that have

standards but cannot enforce them on all members of an occupation. You can still see an occasional entrepreneur, corporate magnate, or economic pundit invoke the old Latin phrase caveat emptor, let the buyer beware. It gets repeated because it has popped up in legal cases, and the Latin makes it sound impressive, but as a legal principle, it has been routinely discredited.36 Caveat emptor is often the first line of defense by rip-off artists, frauds, and producers of shoddy merchandise. Using it as a defense puts the entrepreneur who uses it, and, usually by association, the whole small business community, in a negative light. If you find businesses using caveat emptor as a principle, avoid them. If you have to deal with them, get everything in writing and watch them like a hawk. If they ask you if you trust them, use another famous line, from former president Ronald Reagan, "Trust, but verify." • The 40th president of the United States, Ronald Reagan, popularized the translation of a Soviet-era proverb "Trust, but verify." He used it on USSR premier Mikhail Gorbachev to get a workable deal banning intermediate range nuclear missiles. When looking for a workable deal of your own and getting hit with caveat emptor (let the buyer beware), hit back with Reagan's equally punchy "Trust, but verify," and follow your advice. Don't get caught unaware. Dirck Halstead/The LIFE Images Collection/Getty Images Page 75 Assuming you realize the caveat emptor approach is not the way to go, you may still need to make a decision you believe is ethical. Here are four proven philosophies to try when you are thinking through alternatives to help you determine how ethical the choices are. Am I treating others the way I would want to be treated? You've probably heard of this one before. It's the Golden Rule, and almost every major religious tradition in the world has some version of it. Dumping toxic waste in someone's pond would be acceptable behavior if he or she could dump toxic waste in your pond. An unlikely example, but the point is that you need to think how you'd feel if someone took the same action toward you that you're thinking about taking. The Golden Rule can be one of the easiest ways to think about ethical dilemmas and potential solutions. It's a simple question: Would I want to be treated in the way I am thinking about treating someone else? Is my solution the best thing for the most people over the long term? You may have heard of an idea called utilitarianism. Basically, it means that the action resulting in the greatest good for the greatest number of people is the right action to take. This idea has a strong community focus. One of the most important aspects of it is that you have to consider how your actions will affect other people. It's not about what's fun or quick in the short term but asks you to think about people's best interests down the road. If your solution means that many people will benefit from your actions, with acceptable costs to you, it's probably a good solution. What if everyone did what I want to do? What kind of world would it be? Those questions in a nutshell are the idea of universalism, a code of right and wrong that everyone can see and follow. You may have read about universalism in philosophy class, since it's the brainchild of the German philosopher Immanuel Kant. You may have also heard it expanded by

mothers everywhere. You get your ideas of right and wrong from your family, religion, education, and community. You can hear an example of this sort of thinking in real life in a lecture at Stanford by Heidi Roizen, https://ecorner.stanford.edu/in-brief/dont-compromise-your-ethics/. What if my decision were advertised on a billboard? If you have tried ways to think this through and still can't decide whether what you plan to do is ethical, try the billboard principle. As the name implies, this asks whether you'd be comfortable having your decision (with your name, of course) advertised on a billboard for everyone you know to see. Picture it in your mind! Would you be proud to see your potential course of action up there in giant letters? Would you be ashamed? Would others think worse of you if they knew what you had done to resolve your ethical dilemma? Those questions are the heart of the billboard principle. Kim Polese explains this in a real-life example at https://ecorner.stanford.edu/video/ethics-in-business/. Page 76 There are other ideas, which we have touched on earlier that can help, such as applying economic, legal, or ethical standards or trying to create win–win solutions. A lot of ethical behavior is about taking care of your employees, your customers, your community, your nation, your environment. You and your business are involved with each of these, and you look to each for something, so it is only fair to recognize that each of these entities may have expectations of what you will or should do. Implement the Best Solution and Monitor the Situation: After running your list of alternative solutions through the philosophies and standards in the prior section, were you able to cross any off the list? You probably were. The four philosophies won't automatically give you the best solution to your dilemma, but they're where the rubber hits the road. If your potential solution can't pass and meet at least a couple of these philosophies, you need to rethink what you're about to do. Occasionally you will be able to make a decision entirely on your own, with minimal emotional fallout, and make it stick for your firm. Saying no to a salesperson who suggests a kickback for extra discounts could be such a situation. Often, though, you will need to work through a solution with someone else. In such ethically charged situations, the best outcome is a situation where both sides feel satisfied about (or at least about the same with) the result. In presenting your solution,37 it works best to focus on what the customer or other party wanted and why. You should then make sure the other party accepts that basic review. Add what you were seeking and take questions if the other party has any. Then introduce your solution along with why you think it would fill both parties' needs. If the other side rejects it, rather than asking for an explanation of why, ask instead what part needs to be adjusted, and how the other party would recommend adjusting your offer. Do not be afraid to question the other side's reasoning, and be willing to suggest adjustments. If you get a response that seems to reject the entire proposal, ask if there is any point to start from so that you can build a better version. Bring up a point you took from the prior requests or suggestions, or one the other party seemed to approve of during your

presentation. Starting from a small patch of common ground is not uncommon in negotiating sessions. If this does not work, be ready to talk about your BATNA, or Best Alternative to a Negotiated Agreement, and ask for his or hers. Often, the alternative to negotiating together can be “lumping it” (suffering with what aggravated you or the other party, possibly with loud complaints to others) if the amounts are small, or undertaking legal action if the amounts warrant legal fees or the hassles of enforcing small claims court decisions. When compared to the BATNA’s of both parties, finding a solution together often makes more sense. If you’d like to learn more about the details of BATNA and how to apply it, you can check out a good video from Levesque and Associates at www.youtube.com/watch?v=oVGjuUjr2YI. In cases like EntreQuest (Shift), the result is a win–win, with both sides happier for all the emotional trauma of the confrontation and discussions. But it is important to monitor the situation. In a world of smartphone users seeking reviews of nearly everything they might buy, the impact of a few bad reviews cannot be underestimated. And if the review goes viral, watch out! See the Small Business Insight on the following page about a video that went viral. SMALL BUSINESS INSIGHT Viral Horror: The Busted Guitar38 Dave Carroll is a Canadian guitarist who leads the band Sons of Maxwell. He was flying on United Airlines from Halifax to Omaha in 2008 and checked his guitar as baggage (imagine trying to get it under the seat?). At the change of planes in Chicago, Dave heard passengers talking about guitars being tossed around outside, and his was one of them. When he picked it up in Omaha, it was so severely damaged it was unplayable. The repairs would cost $1,200, but by the time he had the estimate, United said he was too late to file it, and for months the airline refused all claims. Frustrated, Dave ended up writing a song about his experience called “United Breaks Guitars” and the band posted a YouTube video about it (www.youtube.com/watch?v=5YGc4zOqozo). It went viral with 150,000 views within the first day, topping 500,000 within 3 days, 5 million within 60 days, and in August 2019 it had over 19 million views. Unnerved by this, United tried to settle, but the damage was done. Initial sentiment was 50 to 1 in favor of Dave and his video, and today stands at about 60 to 1. The best United could do is show the video as part of internal training for its people on how not to do customer service. American Express reports that Millennials on average tell 15 people about their negative experience, while older groups will tell 11, so bad news will get around. Today with Internet opinion sites like Google Maps and Yelp.com, and dedicated complaint sites like Pissedconsumer.com or even the good-old Better Business Bureau, it can be hard to track all the ways and places people can be talking about you. Only about a third of small businesses monitor their ratings. What do you think you will do? The idea of adding monitoring takes a page from decision-making theory, which usually includes a feedback loop to link the solution to the original problem. In the real world, often the first solution is not optimal, and you need to keep tracking it and revising it until it works well. In ethical decision making, the same

thinking makes sense. It is important to understand why acting in an ethical fashion is important. There are costs to firms for their illegal and even unethical behaviors. Research by Thomas, Schermerhorn, and Dienhart has shown that managers tend to focus on government fines and penalties, which have real but relatively small costs to the firm. What managers tend to underplay are results that are quieter, spread out over a longer term, and actually more damaging to the firm's reputation and finances, as seen in Figure 3.3. There is every reason to think that these results are as descriptive of small business owners as they are of managers in larger firms. FIGURE 3.3The Business Costs of Ethical Failures Source: T. Thomas, J. Schermerhorn Jr., and J. Dienhart, "Strategic Leadership of Ethical Behavior in Business," Academy of Management Executive (May 2004), p. 58. Before leaving the method for ethical decision making, it is worthwhile to look at one very special situation close to the heart of many small businesses—the problem of inventing a product or service too far ahead of its time. Small businesses are often the first to try something innovative. Innovation is the creation of something new or trying something for the first time. Innovation also suggests that you're not sure how a new idea is going to turn out. Taking advantage of an innovative idea is often the reason small business owners start their business in the first place.39 Sometimes small businesses become very successful at doing new things better than anyone else—and along the way may get into ethical hot water because of it, as sharing economy services like Uber and Airbnb have. See the Small Business Insight on the following page. SMALL BUSINESS INSIGHT The Dark Side of the Sharing Economy "Gypsy cabs" conjure up images of people using their cars illegally to transport people where they need to go. Gypsy cabs are not licensed by their locality. Their drivers aren't vetted by the cab authority or police. Nobody knows if their cars are safe. They aren't paying licensing fees to their localities, or abiding by the rules taxis have to follow, such as picking up everyone who asks for service. Today millions of Americans are self-employed as drivers with ride-sharing service platforms like Uber and Lyft. They don't think of themselves as illegal gypsy cabs, but despite the cute app, many of them have been. Both ride-sharing companies use a policy of going into new markets unofficially at first, recruiting drivers online, and using locally targeted Facebook, Google, and other online ads to get people in that new market to download and use the app. During this "silent phase" for ride-sharing platforms, they are running a massive gypsy cab operation in those new markets. When localities notice and start legal action, the ride-sharing platforms alert riders and drivers to lobby to legalize the ride-sharing service locally. In some cities, like San Francisco and St. Louis, this worked in Uber's favor. In Austin and Anchorage, ride-sharing services were kicked out.40 Disrupting old models of doing business can lead to better services at lower prices, but that process of disrupting business can also disrupt our laws and communities. Part of entrepreneurs' responsibility is to think about what they are proposing to do and how. Roman Tiraspolsky/Shutterstock

Page 77 Ethical decision making probably represents one of the most complex and difficult kinds of external relations management situations you will have to face. Often the stakes may be as high as your reputation or even your entire business. You may feel under a lot of pressure. The approach we've shown you is considered one of the best ways to manage the procedure for finding an ethical solution. You can also minimize the need for high-pressure ethical decision-making situations by integrating the lessons of legitimacy, networking, customer service, crisis management, sustainability, and ethical decision making into your everyday activities and into the structure of your business. How do you do this on an everyday basis? There are several approaches that can help: Craft codes for legitimacy, networking, customer service, sustainability, crisis management, and ethical decision making that reflect the personal values you can live with and live up to. Don't get bogged down in details of what to permit or prohibit. Think about the general explanation of what you consider important in positively managing your firm's external relations. A real-life example of an ethical training effort at the high-tech start-up E.piphany can be found in a Stanford video at https://ecorner.stanford.edu/video/company-ethics/. Page 78 When hiring employees, subcontractors, or service providers, make sure you discuss with them your expectations about mutual responsibilities, ethics, and service levels. When external relations lapses occur, if they are not so major that legal action or the demise of the firm is at stake, try to use them as learning experiences for the rest of the firm by talking openly about the issues. They make good opportunities to bring up your expectations again. When counseling around external relations issues, try to use the following approach to help the learning occur: Do not get emotional. Talk through the issues calmly, even when it is hard. Page 79 Be specific about what the problem is and why it violates the way things are supposed to be done in the firm. Have the other person reason out loud why his or her behavior was a lapse to make sure he or she understands. Once he or she understands, work on what future behavior should be (and why), as well as what needs to be done to make things right from the lapse. Be consistent. Make sure everyone who has a lapse faces this process, and where consequences need to happen, they should be appropriate to the severity of the problem, specific to the problem, and the same for everyone who had that level of lapse. Remember, you are the role model for ethics, social networking, and legitimacy. Employees, subcontractors, and even customers look at your approach as the role model for the way your business will approach these issues of managing external relations.41 Our goal in this section of the chapter is to give you some tools you can use to examine your problems and come to decisions you can be proud of. To accomplish that we have looked at the environment in which business operates, what makes it up, and how to analyze it and manage your external relations with it. The environment is critical to business—every business depends on the environment and a workable set of environmental conditions to get started, and from then on, many of the challenges, crises,

and opportunities a firm faces come from the environment. But the lesson of this chapter is that while no one can really control the environment, it is possible to become better able to understand it. And through efforts such as developing social capital and planning ahead of time, small business owners can give themselves and their firms an edge when dealing with external environment.

CHAPTER SUMMARY 3-1 Describe the elements that make up the small business environment. Everything outside the business is its environment. The internal environment consists of everyone within the firm. The task environment comprises those institutions the firm deals with directly. The general environment is the sectors shaping the larger world. Small businesses are constantly interacting with and being affected by the environment 3-2 Demonstrate your ability to scan the small business environment. It is important for entrepreneurs to take time to scan the environment for trends and changes that could affect the business. Even simple environmental scanning approaches can achieve good results. 3-3 Apply the techniques of building legitimacy for your organization. Legitimacy is others' belief that your firm is worthy of their business. Legitimacy can come from the way your firm deals with people, from the products or services you sell, and from the way you run your firm. Legitimacy (like social networking, crisis management, sustainability, and ethical decision making) is a way to build social capital with your environment. 3-4 Navigate the techniques of social networking. Networking involves building relationships via mutual contact and help. You can connect through personal networking as well as social networking over the Internet. For personal networking, there are ways to optimize your inquiries for help. Personal networking is a skill you can practice and improve. Social media networking depends on your learning and leveraging the social networks where your customers already go. 3-5 Explain the basic skills for handling a crisis. Crises are problems that risk a business's existence and require immediate action. There is a six-step process for handling a crisis taken from big business. Page 80 Being honest and open is a big part of handling crises. The three steps of disaster preparedness are planning, talking to your people, and protecting your investment. 3-6 Recognize how small businesses can achieve sustainability. Sustainable entrepreneurship seeks to run the business in a way that minimizes its impact on the environment. One way to minimize impact is through recycling. Another way is by creating green products or services. Using audits and certifications can help the firm be greener. 3-7 Identify the major steps in making ethical decisions in small business. Ethics is a system of values that people use to determine whether actions are right or wrong. The three steps of ethical decision making

are define the moral problem, generate alternatives, and implement the best solution. Workable solutions are those that meet your ethical, legal, and economic goals. The four philosophies you can use to check solutions are the Golden Rule, utilitarianism, universalism, and the billboard principle. Remember that innovations can lead to potentially risky ethical situations.

KEY TERMS environment organizational identity organizational culture external environment task environment internal environment board of directors trade magazines entrepreneurial ecosystem general environment "real options" approach social capital external relations legitimacy ISO Baldrige Award mutuality networking customer relationship management ISO 14001 certification ethics ethical dilemma caveat emptor Golden Rule utilitarianism universalism billboard principle BATNA

DISCUSSION QUESTIONS What is the difference between the general environment and the task environment? Is it possible to say one is more important to a small business than the other? In doing environmental scanning, the chapter mentions looking at the trade press and magazines outside your area of business, as well as asking customers, suppliers, your attorney, and your accountant for ideas about what is happening and what is coming next. If you have employees in your small business, should you ask them too? Why or why not? What are the three general forms of legitimacy? Give two examples of ways to build legitimacy in each general form. Why is a social network important for a small business? Do you think that a small business could get by if it only did social networking using online sites like Facebook or LinkedIn? What would it miss by using this approach, and do you think it is important? What are the three keys to success in building your network using a social networking website? What are the six steps of handling a crisis? How do the six steps of handling a crisis compare to the U.S. government's three-step approach to planning for disasters? Why should small businesses make stronger efforts to achieve sustainability? What are the three steps of ethical decision making? What are the four philosophies you can use to evaluate alternatives you have generated to solve an ethical problem?

EXPERIENTIAL EXERCISES Pick an existing business, or use one you own or are thinking about developing. For that business, identify at least two key players in at least two areas of its task environment (e.g., media and competitors). How did you determine which organizations fit? If you can, partner with another student to do the work on the same business and compare results. Decide on three areas of the general environment you do not usually consider. Put together a profile of sources (online, print, or both) that you would use to do environmental scanning in those three areas, say every month during this class. One good source for each area is fine. Compare your general environment areas and sources to two others in the class. Arrange to compare findings after your first run-through of sources. In particular, what did you find that was "news" to you? What "news" did your classmates come up with for you? Evaluate a franchise using the tables for the three forms of legitimacy. Go to the franchise's local operation to look around and check out the franchisor's website (e.g., mcdonalds.com for that chain). What forms of legitimacy are evident from your research? How positive a feeling does this give you about the firm? Go to the websites of Facebook and Linkedln. From what you can learn from the websites, how do these two social networking sites differ? Consider the market to which they are aiming, their relative sizes, and the kinds of methods they offer for online social networking. For a small business considering online social networking, which would you recommend first, and why? Here are a set of challenging situations small business owners might find themselves facing. How would you handle them? Compare your solution to those of others in your class. When differences occur in the answers, what causes them? You own a dress shop specializing in prom dresses. A customer brings back a prom dress the week after her high school's prom. She swears she never wore the dress, but it seems to you that there were places where the dress shows wear or spots having been cleaned off. You have a "No Return" policy on the receipts and posted on the wall, but the customer says she will tell all her friends you were unfair if you do not refund her money. Last week one of your best employees asked to leave an hour early to take her spouse to the doctor. You said it was okay. Now another employee, who is an average but not great worker, is citing what happened last week and asking to be let go an hour early to go to "an appointment." The employee will not tell you what it is for. You need to buy office supplies. Do you go to Walmart with its visibly lower prices or the local office supply store, a small business like yours? Would it make a difference if the local office supply store bought from you? When talking about codes of ethics, you were encouraged to do a Google search. One of the sites that may have turned up is the Center for the Study of Ethics in Professions at the Illinois Institute of Technology. Check out the site's collection of Codes of Ethics. Select one in an area that matches your small business interests (e.g., business, management, real estate, service, etc.) and look at one of the codes for that area. What do you need to do to prepare yourself to understand and follow that code when you enter your business? You can

complete and discuss the self-assessment below. Is your behavior ethical? For this exercise, you will be using the same set of statements twice. The first time you answer them, focus on your own behavior and the frequency with which you use it for each question. On the line before the question number, place number 1–4 that represents how often you did, do, or would do the behavior if you had the chance. These numbers will allow you to determine your level of ethics. You can be honest without fear of having to tell others in class of your score. Sharing ethics scores is not part of the exercise. The scale is: Frequently 1 2 3 4 Never The second time you use the same statements, focus on other people in an organization that you work for or have worked for. Place an O on the line after the number if you observed someone exhibiting this behavior. Also place an R on the line if you reported this behavior either within the organization or externally to some other person or organization. 1–4 O–R College ___ 1. ___ Cheating on homework assignments. ___ 2. ___ Cheating on exams. ___ 3. ___ Turning in papers as your own work that were completed by someone else. ___ 4. ___ Helping someone do any of the above. Job ___ 5. ___ Lying to others to get what you want or stay out of trouble. ___ 6. ___ Coming to work late and getting paid for it. Page 82 ___ 7. ___ Leaving work early and getting paid for it. ___ 8. ___ Taking long breaks or lunches and getting paid for it. ___ 9. ___ Calling in sick to get a day off, when you are not sick. ___ 10. ___ Socializing rather than doing the work that should be done. ___ 11. ___ Doing personal work on company time. ___ 12. ___ Using the organization's phone to make personal calls. ___ 13. ___ Using the organization's computer and Internet access for personal use. ___ 14. ___ Using the company copier for personal use. ___ 15. ___ Using the company car for personal use. ___ 16. ___ Mailing personal things through the company mail. ___ 17. ___ Taking home company supplies and keeping them, or taking home company tools or equipment without permission for personal use and then returning them. ___ 18. ___ Giving company supplies or merchandise to friends or allowing them to take them without saying anything. ___ 19. ___ Putting in for reimbursement for meals and travel or other expenses that weren't actually eaten or taken. ___ 20. ___ Taking a spouse or friends out to eat and charging it to the company's expense account. ___ 21. ___ Taking a spouse or friend on business trips and charging the expense to the company. ___ 22. ___ Accepting gifts from customers or suppliers in exchange for giving them business. ___ 23. ___ Being pressured, or pressuring others, to sign documents containing false information. ___ 24. ___ Being pressured, or pressuring others, to sign documents you haven't read, knowing they may contain information or decisions that might be considered not in your or their best interest. ___ 25. ___ If you were to give this assessment to a person you work with whom you don't get along with very well, would she or he agree with your answers? Use a scale of 1–4 on the line before number 25. Note to students: This self-assessment is not meant to be a precise measure of your ethical behavior. It is designed to get you thinking about ethics and your behavior and that of

others from an ethical perspective. It is also designed to help you see situations in which you might have to think twice about your decision, because there is an ethical part to it. There is no right or wrong score. Another ethical issue of this exercise is your honesty when rating how often you might do these things—how honest were you? Scoring: To determine your score, add the numbers from the 1–4 column for College and Job. Your total will be between 25 and 100. Place the number here ____ and on the continuum below that represents your score. The lower your score, the more you need to be thinking about the types of behavior you are doing in your organization. Needs some thought A role model 25304050607080901 00 Discussion Questions: For the college items 1–4, who is harmed and who benefits from these behaviors? For job items 5–24, select the three (circle their numbers) that you consider the most severe unethical behavior. Who is harmed and who benefits from these behaviors? Would it matter if they were in a small business or a big company? Why? If you observed unethical behavior but didn't report it, why not? If you did report it, why? What was the result? Was it worth it to you to report the behavior? As a small business manager, you know unethical behavior can threaten the company's existence. If you know some of the employees are stealing from the company, would you tell the owner? Why or why not? If you were a small business owner and you caught your employee, who is also your friend, doing any of the three behaviors you circled in Question 2 (most severe), what would you do? Application: What did I learn from this exercise? How might I use this self-understanding in the future if I own my own or manage a small business? As a small business owner, what can I do to prevent unethical behavior?

MINI-CASE TO RENT OR NOT TO RENT ON GAMEDAY 42 Rami Casarda was a graduate student at Coastal University and the nominal head of a group of other grad students renting a house near the university's stadium, which has over 75,000 seats. With that capacity, you can imagine what gamedays at Coastal are like. The stadium is routinely sold out. Tailgate parties are everywhere. Porch parties from rental and owned houses spill out into front yards, and occasionally the street. Hotels in the town of 35,000 are sold out months in advance, and at their top prices of the year. The challenge for many has been finding a place to stay. Person-to-person (P2P) providers like Airbnb and specialty football weekend competitors like GamedayHousing.com offer renters and owners a chance to make a little extra money offering a bed or room in their place. For Rami's house, one room rented for the 7 two-night stays of the home games would provide the house $11,200 after fees, or four months of house rent. But they face challenges in two forms. One is legal. P2P ride services and overnight room rentals aren't legal in Coastal City. Police have ticketed

Lyft and Uber drivers found on the road, but don't seem to have ticketed P2P rentals so far. But that said, there are only a few local listings on the P2P rental websites at this point. The other challenge is more local. It involves worst-case guests, known in the business as "gameday moochers." They don't have gameday tickets and instead go around to tailgate and porch parties, grabbing free beer and food for hours on end. When the moochers return, they're often very drunk and very rowdy. Some sites let you add a security deposit to the rental fees, and other sites offer additional insurance, but there remains the hassle of proving the case and dealing with the guest during the problem period. There is also a back-of-the-mind fear that rowdy guests returning late at night will draw the ire of neighbors in what is usually, even on gamedays, a relatively quiet residential neighborhood. This could lead to strained relations with neighbors, or at the worst, neighbors calling the police, and ensuring a ticket for illegal room rentals. Rami and the housemates need to decide whether to list or not. See related videos at www.wcpo.com/money/consumer/dont-waste-your-money/airbnb-nightmare-mans-home-trashed-by-renters and www.wptv.com/news/region-s-palm-beach-county/boynton-beach/boynton-homeowner-takes-on-airbnb-over-damage. CASE DISCUSSION QUESTIONS What advice do the four philosophies (Golden Rule, utilitarianism, universalism, billboard principle) offer for Rami's thinking? What is your thinking about how the legal and local challenges noted above drive the decision? Which should take precedence and why? When entrepreneurship is disruptive, it often runs ahead of existing laws. If you were the entrepreneur behind a new P2P rental site, should you operate everywhere? Should you not accept new rental locations in areas where their service is illegal? Do you think you can figure out where it is legal and where it is not? Should you depend on those offering rentals to know if what they are doing is legal? What do the four questions defining a moral problem tell you?

CHAPTER 4 Small Business Ideas: Creativity, Opportunity, and Feasibility Page 85 LEARNING OBJECTIVES After you complete this chapter, you will be able to: LO 4-1 Identify strategies for innovation in your business. LO 4-2 Recognize the sources of opportunity entrepreneurs draw on to get business ideas. LO 4-3 Understand how creativity methods can help business owners recognize new opportunities. LO 4-4 Understand the five pitfalls that hinder innovation. LO 4-5 Identify how to screen ideas for business potential. LO 4-6 Describe how to construct a business model canvas to assess the feasibility of your business idea. LO 4-7 Describe how to conduct a comprehensive feasibility study for your business ideas. LO 4-8 Recognize the value of building a creative culture in your business.
• Mary Elizabeth Coleman learned how to do feasibility analyses in her undergraduate

entrepreneurship class. Years later, as a lawyer in private practice, she had an opportunity to revisit the skill for one of the largest law firms in St. Louis. How did Mary Elizabeth's experiences and education make her the right person for this entrepreneurial role? Mary Elizabeth Coleman Focus on Small Business: Mary Elizabeth Coleman and the Feasibility Study1 Mary Elizabeth Coleman had her first business at 11, selling flower subscriptions to judges and attorneys in the courthouse of her hometown of Georgetown, Texas. She found out she needed an agricultural license to buy flowers wholesale, and thereby make a reasonable profit, but she couldn't afford it. Undaunted, she wrote Texas's agricultural commissioner, Rick Perry (later the governor of Texas, a presidential hopeful, and the secretary of energy) about the problem, and he personally paid for her license. Mary Elizabeth was growing into a person who gets thing done. In her entrepreneurship classes at Saint Louis University she learned how to do feasibility studies as well as business plans, but her heart was still in those courthouses, so after college she married (her college sweetheart) and went to law school. From there she worked in law firms and then independently in her own law firm, doing business and taxable estate planning law. Her old entrepreneurship professor2 made her an interesting offer. He had been approached by the managing partner of Lewis Rice, one of the oldest and largest law firms in St. Louis, to recommend someone to do a feasibility study for a specialized law firm focused on estate planning. Clearly a lawyer who had done estate planning and had learned how to do feasibility studies would be the perfect person, and the professor recommended Mary Elizabeth. The two lawyers met, liked each other, and both liked the idea. As a result Mary Elizabeth had a consulting contract on top of her legal practice. She performed what we call in this chapter a "classic feasibility analysis." She modeled a law office specializing in estate planning, looked at the market in St. Louis to determine the best locations to attract customers, and priced out what the offices, marketing efforts, and other costs would be. She used historical data to estimate revenues, and looked at the expertise and special services needed for such a business. She also studied how specialty legal clinics, like those for divorce or traffic tickets, were most professionally and profitably organized. She presented the ideas to the lawyer who hired her, and then to the partners. They were impressed, and decided to go ahead with the project, which they called TuckerAllen, and opened with five locations and the prospect for more. Mary Elizabeth was also invited to serve as TuckerAllen's first CEO. She took the offer and became a corporate entrepreneur of this wholly owned subsidiary of the law firm. She was already a social entrepreneur. As a member of the Arnold, Missouri, city council, she was the driving force behind the creation of a co-working space called Corridor 55 (www.arnoldmo.org/business/corridor-55/), which was Missouri's first municipally owned co-working space. In whatever setting she finds herself, Mary Elizabeth keeps on coming up with new ideas. She is a great example of CSI entrepreneurship. With her latest role, as a member of the Missouri House of

Representatives, there are sure to be some more new ideas coming out. Page 86 DISCUSSION QUESTIONS How did Mary Elizabeth's education and experience help prepare her for this project? What did Mary Elizabeth consider when performing her feasibility analysis of the estate law firm? What other topics might you want to look into if you were doing the feasibility analysis?

Ideas, Opportunities, and Businesses 4-1 Identify strategies for innovation in your business. To many people, entrepreneurship is the pursuit of opportunity. What is an opportunity? There are literally dozens of definitions,3 but they boil down to actions that you do or imagine doing in order to achieve some kind of business outcome. This can be creating a new product or service, or delivering an existing product or service where people will buy it or use it. Opportunities can be found (such as when an entrepreneur came across the bubbling spring that became Perrier water) or made (seeing someone toss a pie tin and making the toy version called the Frisbee). That search and capture of new ideas is called opportunity recognition, which researchers believe might be the most basic and important entrepreneurial behavior.4 The exact reasons why entrepreneurs seem to be better able to find ideas that work are unclear. The notion of entrepreneurial alertness is one that has captured the attention of scholars in the field. This phrase means that entrepreneurs have a special set of observational and thinking skills that helps them identify good opportunities. Some scholars have suggested that entrepreneurs are able to notice things that have been overlooked, without actually launching a formal search for opportunities.5 Others suggest that we also consider the motivations of entrepreneurs to search for new ideas.6 For example, Gaglio and Katz7 found that serial entrepreneurs could come up with new ideas given nearly any situation. Sitting at an airport, these entrepreneurs might begin to look where lines are forming and wonder how to make money off that. Others could look at a collection of everyday items and in a few minutes they are thinking up ways to combine them to make a profit. Their use of the opportunity identification process tells us that being creative can become a way of life. Gaglio and Katz found that these experienced entrepreneurs thought of different types of business ideas depending on the situation. Called the opportunity identification process (see Figure 4.1), it describes how the entrepreneur assesses whether the situation faced is one that is the same as it has been traditionally or if it is changing. Strategies that involve doing the same thing, or pursuing an imitative strategy (which is covered in detail in Chapter 7), or pursuing an incremental strategy make a lot of sense when the business or economy is continuing on a fairly steady course. Sometimes during these periods of stability, trying innovative

ideas might help win more business from rivals, and “shake up” the industry, perhaps giving the innovator an advantage. During times of great change—whether from technological, political, economic, or cultural change—the potential for steady business declines, and the attractiveness of innovations increases. At times of great change, people become more willing to try extreme new ideas, so it becomes a great time to introduce extremely innovative ideas, also known as pursuing a radical innovation strategy. FIGURE 4.1Opportunity Identification Process Source: Adapted from C. M. Gaglio and J. A. Katz, “The Psychological Basis of Opportunity Identification: Entrepreneurial Alertness,” Small Business Economics 16, no. 2, (March 2001), p. 99. 4-2 Recognize the sources of opportunity entrepreneurs draw on to get business ideas. Recall the four steps of the entrepreneurial process from Chapter 1—feel, check, plan, do. What entrepreneurs feel are the possibilities we call opportunities; it is their entrepreneurial alertness at work. Some are ones they see in front of them, like a new fashion that hasn’t come to their community yet, and some they imagine, like when they have an idea for a product to solve a problem. When you think of it that way, you might conclude that there could be a lot of opportunities. Page 87 And not all opportunities are created equal. Trying to decide which opportunity to pursue can be tough. In big business, the rule of thumb is that it takes 3,000 initial ideas (or opportunities) to come up with one commercially successful product.8 The secret of making this work is taking a second look at the opportunities to figure out which are best. Here is where the second stage—checking—comes in. In big business, doing some basic research on the idea eliminates 90 percent of the opportunities. Testing the remaining ideas in a very simple way eliminates 60 percent of those second-stage opportunities. While the numbers for entrepreneurs haven’t been tested yet, no one is suggesting an entrepreneur needs to think of 3,000 ideas to start. But any opportunity would benefit from being checked out. In this chapter, we will focus on finding and making opportunities and checking them out, so that when you get down to planning and doing, you’re using your best idea. There are two ways to think about opportunities and business creation: One is the effectuation model of entrepreneurship mentioned in Chapter 1. In it you start with what you have—your skills, knowledge, and networks, and what needs you see that you can meet by using what you have. You talk to the people you know to find out if they can commit to your idea. If not, find out what they need, and which of those needs you can do something about. If this approach sounds familiar, it is because that is probably the way your friends in high school got into business for themselves. Once they decided to earn some money, they took stock of what they knew (e.g., taking care of kids or yards) and checked to see if they could sell that to neighbors. But it’s not just for high schoolers. It turns out that at least a subset of very successful serial entrepreneurs think the same way, but on a bigger scale, and you can too.9 Using the four-step model, here is what happens: Feel: Recognize you want to do or make something through a business. Check: Assess

what you know and who you know to determine your product or service and your customers. Plan: Offer your product or service to your customers and see if you get any sales. Do: If you get enough sales, keep going. If not, go back to the check step. The second way to think about opportunities and business creation depends on your dreams or ideas about new or not-yet-created products or services. This is called the causal model of entrepreneurship. In this approach you think about what you need to do to cause your new product or service to come into existence. That may mean you have to learn new skills or find others to help you achieve your end, and doing that will probably take some additional time, perhaps some additional funding, and overcoming two risks—the risk that your new product or service can't be created and even if it is created, that it isn't something that customers are willing to buy. Both of those risks can be decreased by thoroughly planning before you act, so the four-step process looks like this: Page 88 Feel: Decide you have a great idea and want to go into business to make it happen. Check: Assess your ability to understand it and create it yourself. Get help if needed. Then assess the technical feasibility of the idea. Plan: If the idea is feasible, plan for making and selling it, checking with potential customers to make sure they will buy it. If you get enough interest, keep going. If not, got back to the check step. Do: Make the product or service and the company to sell it and get it into the market. The model is shown graphically in Figure 4.2. The goal is to start with lots of ideas and narrow them down to a few ideas that you will test with techniques introduced in this chapter called an IDEO screen (the overlapping circles), business model canvas (the multicolored rectangles), or a feasibility plan (FP) until you find one that seems most promising, for which you do a business plan (BP). This approach gives you the best chance to think through the ideas, quickly evaluate them, and settle on the most promising one before starting the business. FIGURE 4.2The Screening Process in the Causal Model of Entrepreneurship We know that the effectual and causal approaches happen in real life. In the nationwide Panel Study of Entrepreneurial Dynamics (PSED),10 a sample of 1,754 entrepreneurs were asked whether the decision or desire to start some kind of business (the effectuation approach) or the business idea (the causal approach) came first or if they combined the two. See the results in Table 4.1. TABLE 4.1 What Came First for New BusinessesTable Summary: Table divided into two columns shows effectual approaches to start a new venture. Column 1 notes the events and column 2 shows the corresponding percentage. Business idea (causal) 36% Decision/desire to start a business (effectual) 23% Idea and decision were simultaneous (combined) 41% Source: Original analysis using PSED 1 and PSED 2 data (covering 1998 and 2006, N = 1,767) done by Kelly Shaver, College of Charleston, for Entrepreneurial Small Business, February 2019. Given that effectual approaches depend on what and who you know, the path to business comes from self-analysis, but if you're taking a more causal approach, you might want to think about where you can look for ideas. Exhibit 4.1 gives you a set of sources anyone can

immediately use. EXHIBIT 4.1Ten Sources of Business Ideas Work and personal experience: Realizing frustrations or unfulfilled wishes from your life working or being a consumer. A similar business: Seeing something new to you or your area, and thinking about importing or copying it. Chance: “Being in the right place at the right time.” A lot of this can be retail arbitrage, buying closeouts at your local stores and selling at full price online11 or buying up umbrellas and selling them on the street during rainstorms, or reselling tickets to sporting events or concerts. Family and friends: Getting a great idea from family or friends. Education or expertise: Applying what you’ve learned in school or developed on your own. Magazines: Googling “top business ideas” or “new business ideas” to find articles and blogs talking about cool new business possibilities. Inc.com and Entrepreneur.com do these lists yearly. Idea sites: Checking for ideas at halfbakery.com, coolbusinessideas.com, or ideaswatch.com, or searching online for “idea sites.” Side gigs: Driving for Uber or Lyft, renting rooms on Airbnb, selling your services on Fiverr.com or Upwork.com or to customers in your neighborhood or locally on Craigslist.org. Make and sell: Making something and selling it locally, online (think Etsy.com), or at a market. Going online: Seeing what is trending on social media, asking your online connections for ideas or needs, checking what’s hot on Amazon or your favorite sites and seeing if there are ways to make a buck from that. These sources really do work. In the PSED, 480 entrepreneurs were asked “What led to your business idea?” Figure 4.3 presents the results of this question. Work experience in a particular industry or market was the most frequently mentioned source of ideas, followed by discussion with family and friends. FIGURE 4.3What Led to Your Business Idea? Source: Original analysis using PSED 2 data (covering 2006, N = 1,207) done by Kelly Shaver, College of Charleston, for Entrepreneurial Small Business, February 2019. Page 90 Other powerful but rarely used sources of ideas are universities and government agencies. Both develop a tremendous range of new technologies or refinements of existing technologies, but never do anything with them! Major universities and government agencies, like NASA and the Departments of Agriculture and Defense, offer technological inventions for free to small businesses to develop. There are even government programs to help fund such efforts. The best place to start is Federal Labs (www.federallabs.org/), the centralized location for over 700 federal government technology producing programs. If you have a university nearby that has government-funded research, you can contact the technology transfer office and find out about inventions available for commercialization in your own backyard, or check out the website of the Association of University Technology Managers at www.aim.autm.net, or the multiuniversity iBridge Network at www.ibridgenetwork.org/. What these organizations will offer you is an arrangement called licensing. A license is a legal agreement granting you rights to use a particular piece of intellectual property (for example, a technology). In return, you (the licensee) are required to pay the owner of the license (the licensor). These

payments can consist of an up-front or annual flat licensing fee or a royalty, which is a payment per item sold. Often the licensor will provide access to the idea's creator to help make the move to market as successful as possible. Examples of licensed products you see every day include Dolby noise reduction, or Gatorade, or anything with a Disney or Coca-Cola or sports team logo on it, as well as products with famous characters from television shows, comics, or movies.

From Ideas to Opportunities through Creativity 4-3 Understand how creativity methods can help business owners recognize new opportunities. You might have a viable business idea, but is it the best one to pursue? Are you sure you have the right approach for making the most of the idea? Very often the first good idea an entrepreneur has is not necessarily the best one he or she will have. Before committing yourself to one viable idea, it is a good practice to take some time and see if you can take that viable idea and innovate on it to create an even better—more profitable, more distinctive, harder to copy—idea. Why worry about being innovative in your approach? Consider the ease with which you can get data over the Internet on industries and markets, such as your competition, and how small business research and how-to articles are at your fingertips with many journals and magazines available over the web. Of course, everybody else who is thinking about starting a business similar to yours has this same information at his or her fingertips also. There are, however, some very creative methods you can use to help you generate ideas and opportunities that take you beyond what everybody else already knows. This is what can give you the innovative edge in business ownership, whether you are looking for ideas that are just a little bit different from the competition, or a world apart from what everybody else is doing or not even doing yet. These strategies are discussed later in the chapter. Figure 4.4 provides one tool you can use to help you identify new opportunities. It is based on the work of Alex Osborne, a pioneer in the field of creativity, who first coined the word brainstorming where a group tries to list as many ideas as possible, without critiquing or commenting. This other tool is known as SCAMPER, and it is an acronym for a set of cues that trigger new ideas for your business. FIGURE 4.4Using SCAMPER to Recognize Business Opportunities13 Source: Michael Michalko, Thinkertoys: A Handbook of Business Creativity (Berkeley, CA: Ten Speed Press, 1991). Substitute: Think of what you might substitute for something else to form a new idea. A feature that allows your customers to order directly from a website rather than visiting your store or ordering by mail is an example of substitution. Sometimes solutions derived through SCAMPER cues are very "way out" and lead people to some creative ideas for solving annoying problems. One

city in the Netherlands, for example, was experiencing a growing litter problem (not unlike your own town or city, no doubt), and the civic leaders tried all the usual ways of fixing the problem: They increased the number of trash bins around the city, they posted signs reminding people not to litter, and they fined people for littering. Nothing seemed to help. Then they got a breakthrough idea: A tiny recording device was installed inside trash bins, and every time someone pushed the lid to deposit litter, a joke would play from the recorder! Not surprisingly, it was not too long before the litter problem declined.12 Page 91 Idea Trigger: What opportunities can you think of that come as a result of substituting or replacing something that already exists? Combine: Think of possible combinations you can make that result in something entirely different. Not long ago, if you wanted to buy a book you went to a store that typically carried only books, and if you wanted to buy a cup of coffee you went to a coffee shop, and if you wanted to hear music you went to a club or theater. Today, you can have all three under one roof at many establishments, including big ones such as Barnes & Noble, but also some smaller businesses such as Tattered Cover Book Stores in Denver, Colorado. Also, when you buy gasoline at the service station, you most likely can pick up some groceries along with basic auto supplies. Idea Trigger: What separate products, services, or whole businesses can you put together to create another distinct business? Adapt: Think about what could be adapted from products or services that already exist. Many successful businesses are founded on the concept of adaptation. It's a popular innovation strategy that can be just as effective, and much more likely in the real world, than business opportunities that are the result of radical innovations such as inventions. You may remember the original Book-of-the-Month Club that sent members a different book every month. What adaptations can you find? How about beer-of-the-month, pasta-of-the-month, and many other variations? Did you know that one day a manufacturer of toilet tissue received a shipment of paper that was too thick to use? The manufacturer could have thrown it out, but instead the manufacturer improvised, and paper towels were introduced! Sometimes adaptations occur when entrepreneurs try their best to work with scarce resources. Idea Trigger: What could you adapt from other industries or fields to your business? Magnify or modify: Taking an existing product and changing its appearance or adding more features or increasing the hours your store is open or making its advertising more dramatic are some ways you could magnify or modify your idea. For example, Ally Bank is a relatively small, new, online financial services company that is currently expanding nationally using ads proclaiming this in some very dramatic and humorous ways, poking fun at the traditional fees that banks and other financial service companies charge for checking accounts, for example. The goal is for such messages to be remembered by potential customers, and the effect is to make the business stick out among its competitors. There is much a small business can do to create memorable images and advertising for itself, and it does not need expensive television ads to do it. The

letter M also can cue you to “minimize” something. The microchip industry was born, for example, when someone asked the question, “What if we shrunk them?” Idea Trigger: What could I make more noticeable or dramatic, or different in some way from my competitors? It need not be in the product itself, but it could be the way you advertise or treat the customer during the transaction that becomes memorable. Put to other uses: Think of ways you could generate a high number of opportunities for your product or service beyond what it is traditionally used for. A few years ago, Arm & Hammer Baking Soda was known as a product customers used by the teaspoonful every few weeks when they baked a batch of cookies or a cake. The problem for Arm & Hammer was that it wasn’t selling a lot of boxes of the stuff since it tended to sit in people’s kitchen cupboards for years. At 59 cents a box, that doesn’t bring tremendous sales revenues. One day, the company brought together a group of employees and gave them the challenge to think of all the uses for baking soda (besides baking) that they could. Ideas took off, and today the company produces an entire line of baking soda–related products that bring a handsome return in profits. Can you think of some? (Hint: Washing clothes, refrigerators that smell fresh, a product cats use, etc.) Page 92 Antoine Feuchtwanger sold frankfurters at the Chicago Exposition over 100 years ago, and his customers complained that they burnt their fingers when holding them. Fuerchtwanger tried gloves, but customers kept walking off with them. Finally, he took some rolls that a baker had made, cut them in half down the middle, and placed the frankfurters inside them. Hotdogs met buns, and today it’s hard to imagine one without the other. Idea Trigger: Suppose you learned that all the traditional uses for your product had disappeared and that you have trailer truckloads out back with tons of product. What other uses might there be? Aim for quantity, and allow outrageous ideas to flow along with more mundane ones. Who knows what new applications you may find. Eliminate: Search for opportunities that arise when you get rid of something or stop doing something. What products or services emerged when these questions were asked: What if people didn’t have to leave their houses to go grocery shopping? What if you could buy something (or do bank transactions) without leaving your car? Idea Trigger: What could I get rid of or reduce that would eliminate something my customer has to do, and as a result give the customer more than he or she expected? Rearrange or reverse: A generator is the reverse of a motor. Uber and ride-sharing services rearranged the process of getting a taxi, so instead of searching for a taxi stand or a taxi on the streets, you use your app to order one. Other examples include using reverse psychology or paradox to challenge old ways of thinking, for example, using stimulants to calm hyperactive children. Idea Trigger: What can you rearrange or reorder in the way your product or service appears, or the way businesses in your industry usually look or are decorated or located? • Arm & Hammer Baking Soda was put to another use when employees came up with absorbing refrigerator odors. What other uses can you imagine? Bonnie-Kamin/PhotoEdit SCAMPER is a very

effective method for helping business owners and their employees come up with alternative solutions and opportunities. The method works because it helps you step outside the usual way you look at opportunities or try to solve problems. It offers cues that push you outside your traditional areas of expertise, to consider what interesting new forms might be out there that you could try. Thinking of other ways to be creative, note that creative business owners similarly question and challenge the way things appear, to see if they can find a new way of doing things. When you see a highly innovative business, don't think that there is something especially magical or lucky about the entrepreneur or the situation. It's more likely that the person or team behind the business has been using a process for organizing creative thinking developed by Graham Wallas14 consisting of four steps: Page 93 Preparation—Exploring the problem or opportunity from all directions. Incubation—Thinking about the problem or opportunity in a "not-conscious" way, putting it on the back burner, so to speak. Illumination—Bringing ideas together to spark new insights. Verification—Testing the idea and reducing it to its most exact form.15 This process is very useful when you want to explore a business problem, such as why you lost a customer, or when you want to identify further opportunities for your business, such as new markets or features for your product line. If you can pinpoint what stage of the creative process you are in, you can guide yourself through to an innovative solution by looking at things from different perspectives and allowing the issue to simmer in the background for a bit. This technique has worked for many famous creative people—from Leonardo da Vinci to Albert Einstein. Another variant of this approach is to turn the brainstorming process mentioned above on its ear. In painstorming, instead of asking for new ideas, ask people for pains or aggravations they face in a situation you choose. Even if people don't have ideas for what they want that's new, it is relatively easy to get almost anyone to tell you things that could be better in any situation. In starting with pains, you may be able to quickly come up with new ways to improve or even replace existing products and processes. LEARN MORE ONLINE Learn more about the topics above at these sites: Brainstorming techniques: www.ideou.com/pages/brainstorming Painstorming techniques: https://medium.com/@alyciadoxon/brainstorming-methods-pt-2-pain-storming-80cd1fc50d4b Brainstorming with SCAMPER and related techniques: https://medium.com/@gunsb002/structured-ideation-ad1388949a02

Avoid Pitfalls 4-4 Understand the five pitfalls that hinder innovation. In your quest for new business ideas, from time to time you may catch yourself rejecting ideas or jumping on the first good idea you get because you are excited and there is no time to lose. There are five

major pitfalls16 that business owners can become victim to when trying to become more innovative. See if you recognize the ones that apply to you and your business, so that you can sidestep them at every opportunity: Identifying the wrong problem: When a problem doesn't stay solved or an opportunity doesn't pan out as expected, it could be that the wrong problem was defined. For example, a synthetic-fiber producer brought a group of employees together to help find ways to reduce the manufacturing costs of a particular product. After spending a few days brainstorming and finding that the problem was not leading them to any interesting or useful solutions, the employees turned the problem around and began developing ways to increase the sales of a highly profitable part of the product line. How were they able to change their focus in this way? They simply examined the problem within the broader context of profitability (instead of costs) and discovered that the real problem was low profits. Judging ideas too quickly: At many business meetings when someone suggests a new idea or approach, often the first reaction you hear is, "We've tried that before and it didn't work," "The boss will never go for it," "It's not in the budget," or the frequently heard, "Yes, but . . ." People tend to judge ideas prematurely, before they take the time to ask, "What's right about this idea?" or "How could this idea be made better?" Page 94 Stopping with the first good idea: The first good idea you come up with is rarely the best. That's because it was the easiest to think of, and so there is little doubt that your competitors have already thought of it, too. Thinking of the 3,000 ideas for a successful product mentioned at the beginning of the chapter, it is easy to imagine that the very best ideas come a little later, after the ideas that are on the top of your mind come out. Using a tool such as SCAMPER, for example, encourages you to explore things more deeply than just rattling off the first thing you can think of and then doing that. Failing to act: A colleague was passionate about Jamba Juice, a national chain that hadn't come to St. Louis yet. Anytime we traveled together, if there was a Jamba Juice, he'd find it and sit around talking about it. Knowing it was a franchise chain, I encouraged him to become the St. Louis franchisee. Although he was passionate about the product, he kept finding reasons not to try for the franchise. Ironically, another local found himself at loose ends when he lost his job as a top beer executive and ended up becoming the nation's largest Jamba Juice franchisee. Good opportunities have a way of coming into existence. It might be up to you to bring it to the market. Obeying rules that don't exist: We sometimes put obstacles in front of ourselves because we think we can't do something, when in fact there is no reason we can't. Are you assuming that as the business owner you need to do all the work, or make all the sales calls, or solve everybody's problems (including your employees' or partners' problems)? Before you assume that you do, challenge the assumption.

Screen Ideas 4-5 Identify how to screen ideas for business potential. In the previous section we examined various ways you can search for your business idea or for ideas that improve existing products, services, or business processes. But recall that in big businesses, it can take 3,000 ideas to yield 1 commercially viable product. To increase their odds of finding a good idea, they take all the thoughts they came up with from the "feel" step of the entrepreneurial process, and put them through a "check." In this section we'll show you ways to do that checking for your ideas and opportunities. We begin with some fundamental questions. Later in this chapter you will learn how to conduct a comprehensive feasibility analysis for your idea, a formal approach to assessing whether your idea is sound and could lead to a viable business. For now we offer a simple approach to help you quickly screen ideas. In many cases you might be thinking about opening a service locally or starting a website or creating a basic consumer product. In all of these cases, it is likely that you can quickly and easily check out what is already out in the marketplace. The techniques are given in Skill Module 4.1. The fact that your idea is already out there is not necessarily a bad thing for you. You can check out what your competitors are doing and think about if you can do better. This can be by making a better product or service, or by doing a better job at marketing their product or service through some kind of contracting arrangement. If they've got something good, you might consider approaching them to become a distributor or agent selling their product or service in your locale. You could be in business tomorrow! One of the simplest and fastest ways to screen ideas is what we will call the IDEO screen. IDEO is a consulting organization that is one of the creators of the approach called design thinking, which is a customer-focused approach to creating products and services that truly solve customers' problems. They recommend looking for ideas that are high in three elements, which are represented by the asterisk (*) in Figure 4.5:17 SKILL MODULE 4.1 Checking Ideas on the Web When we think of a new idea, we generally assume that if it is new to us, it is new to the world. With the help of the Internet, we can now do a much better job of making sure that's true. Take the example of a book holder on an adjustable spring-loaded arm, like some types of desk lamps. It would let you read in bed at a comfortable angle without tiring your arms. Because you have not seen one before, it seems like it could be a new product idea. Start your browser, point it to google.com, and type the product description "book holder for bed": Google Inc. In this case, the idea is popular enough that before we could type "bed," Google pulled it up as one of the more popular product searches. Going to the page will give you an idea of what kinds of holders already exist. Note that you might have to try several different ways to describe your product. For example, if you tried typing "spring-loaded book holder" you could get a different mix of products. So try to think of different ways to describe the product. Realize that the existence of products like the one you imagined gives you a fast path to starting your business. Instead of manufacturing something (which will take your

time and money), you can select the products you think would best fit your customers' needs, obtain the products from a wholesaler (or become a reseller with the manufacturer or wholesaler), and start selling overnight, with minimal up-front expenditure. If you can arrange to have the wholesaler or manufacturer or a third-party like Fulfillment by Amazon handle the drop-shipping, you can operate in an almost totally hands-off fashion. If you are considering a service, like dog walking, the same basic approach applies. Bring up maps.google.com and put in the service and the zip code or locality where you would like to deliver the service. It should show you where potential competitors are located. Remember that many services are local, so if there is no one in your immediate vicinity, that may be enough space in which to get started. Market Desirability: Do people (your customers) really want the solution being offered? Technical Feasibility: Can the solution really solve the problem, and can we make it? Business Viability: Can we make the solution and make money doing it? The questions can be answered in only a few words (think one Post-it Note per question), enough so someone can get a general idea of the answer. The IDEO screen for Pet Élan, whose feasibility study is shown later in the chapter, is included in Figure 4.5. Note that it was only one of many ideas entrepreneur Randy Miller came up with on the path to deciding on a business opportunity. FIGURE 4.5The Initial IDEO Screen for Pet Élan Page 96 However, if you are considering multiple ideas at the start of your screening process, it might help to put numbers to the analysis.Skill Module 4.2 provides a simple way to score initial ideas. SKILL MODULE 4.2 Scoring Ideas in an IDEO Screen The goal in screening (see Figure 4.2) is to narrow down the many ideas you have generated, make an initial assessment of them, and then do a more in-depth analysis of this smaller set of ideas using the business model canvas or classic feasibility study. Using the scoring matrix below is a three-step process: Step 1: Score each idea on the 12 items in the table below. For each item, the score can be 1, 2, or 3, depending on which is the closest description of the idea at this time. If in doubt, use the lower score (this is a way to be conservative in your assessments). Step 2: Total the scores from questions 1–4 to get the market impact score, which measures the acceptance and scale of your idea with potential buyers. Do the same for questions 5–12 to get the possibility score for that idea. The possibility score measures how possible the idea is given its complexity and your firm’s capabilities. Table Summary: Table divided into four columns summarizes ideas for assessing a business model based on ratings. The column headers are marked from left to right as: market desirability; score 1; score 2; and score 3. Market Desirability Score 1 Score 2 Score 3 1. Frequency of purchase Buys it once Return buyer for new versions Repeat buyer for original purchase 2. Intensity of desire Likes it Loves it Raving fan 3. Sales per week 100s of units 1,000s of units 10,000s of units 4. Customer testing Real customers—directly asked about idea (family and friends asked do not count) Real customers—given “customer job” interviews > 20 real customers—given customer job interviews Technical Feasibility 5. Product

Would need to be built from scratch Only needs customization or can be built using existing components Already exists 6. Deployment Requires new sales channels or efforts Uses existing real-world channels and efforts Uses existing Internet channels and efforts 7. Distinctive competence Seen as “as good as the competition” Seen as “better than the competition” Seen as “the best choice by far” 8. Value proposition Solves a part of the customer job Solves majority of customer job Directly and completely solves customer job Business Viability 9. Team You need help with one or more of technical, sales, financial, or operations You’re “okay” at it all— technical, sales, financial, and operations You’re great at it all —technical, sales, financial, and operations 10. Risks (insurance, legal, technical, moral) Risks not fully explored or managed Major risks known and manageable All risks known and manageable 11. Your passion for this It is an option for you It is what you want to do It is a burning need for you to do this 12. Profits by year 2 Will cover firm’s operating annual budget Will cover 5 times annual budget Will cover 10 times annual budget Market Impact Score (Questions 1–4) (maximum = 12) Score = Possibility Score (Questions 5–12) (maximum = 24) Score = Step 3: Plot the scores on the accompanying graph (or make your own with a 24 x 12 graph space).18 The closer to the upper right the idea (the blue area), the better it is because of its high scores for possibility and market impact. Feel free to rethink or retool your ideas and rescore them to achieve an improved product or service. This is a very common practice, and one behind many of the best ideas. Of the things you can do, pursuing more customer interviews is often the key to making better solutions. Page 97 When Randy Miller scored his idea using the 12 questions his possibility scores were 1 + 3 + 2 + 2 + 1 + 2 + 2 + 2= 15 (out of 24) and his market impact scores were 3 + 2 + 1 + 1 = 7 (out of 12), so he fell outside the blue high-impact area in the graph, but actually quite close to it, so the idea seemed worth considering, and perhaps worth doing some additional preliminary work to improve his customer interviews, making sure his risks are managed and help the idea work even better. You might have noticed that the interviews getting the highest score in Skill Module 4.2 are “customer job” interviews. This style of interviewing has been developed by IDEO and several others, and it consists of your asking potential customers (family or friends don’t work for this) about the problem they have, how they they have tried to solve it so far, and what are the good and bad aspects of that solution. Your goals are to find potential customers, learn their needs, how they meet their needs right now, and what they see as better potential solutions. In this approach, you do not tell them your idea for a product or service. You learn about their problems and the solutions tried first. If you offer your solution, there is too great a chance that they will tell you what they think you want to hear. At this point, you need some true leads more than reaffirmation of your own idea, if you want to have solid opportunities when you are done. You can learn about how to do such interviews in Skill Module 9.1. If you want even more suggestions for how to develop this key skill, look at the suggestions in

the Learn More Online box below. LEARN MORE ONLINE Learn more about the topic above at these sites: Talking to Humans free PDF ebook: www.talkingtohumans.com Justin Wilcox's interviewing approach: https://customerdevlabs.com/2013/11/05/how-i-interview-customers/ Interviewing advice from the home of the business model canvas: https://blog.strategyzer.com/posts/2015/11/26/a-quick-guide-for-asking-good-customer-questions Page 98 When you are down to what you might think of as your leading idea, it is time to make your first deep-dive check. How best to do that depends on the type of idea.

Make Sure an Idea Is Feasible Did you notice that the screening process doesn't ask you anything about money, like costs or sales? That is because trying to think through the finances is one of the more complex things to assess when thinking about a start-up. You need to do it eventually, but it is better to come up with interesting and potentially great ideas and then work through those "next-stage" sorts of issues, like financing. In general, that next-step process after the IDEO screen is called testing the idea for its feasibility. Feasibility means the extent to which the idea is viable and realistic and the extent to which you are aware of internal (to your business) and external (industry, market, and regulatory environment) forces that could affect your business. In this section we will talk about the two major approaches to checking feasibility—the business model canvas process (also known as the online pilot test or the lean business practice), and the classic feasibility study. 4-6 Describe how to construct a business model canvas to assess the feasibility of your business idea. The Business Model Canvas Approach Business models are ways to identify and organize key information on organizations and how they achieve their goals. There are literally hundreds of business models, both as analytic tools and as ways to do business. For example, the "razor and blades" business model explained how Gillette made money by selling razors cheaply but charging a lot more for razor blades—a model we all live with today. Think of how little you pay for your printer or smartphone up front, but how much you have to spend on printer ink or data plans to keep it useful! For our purposes, though, the focus is on the business model as an analytic tool. Figure 4.6 shows a variant of the popular business model canvas developed by Osterwalder and Pigneur with the IDEO overlay developed by Isaac Jeffries.19 The business model canvas explores the 11 most important factors in developing a start-up that would appeal to customers, compete well, and generate a profit. The blue boxes within the canvas build on answers related to market desirability which you developed in your IDEO screen earlier in the process. The answers related to the technical feasibility you developed for the screen are applied in the red boxes, while the answers to the business viability items relate to the

green boxes below. Let's consider each of the 11 boxes in the most likely order you would think about or encounter them,20 which are the red numbers in Figure 4.6. FIGURE 4.6How the Business Model Canvas Builds from the IDEO Screen's Market Desirability (in blue), Technical Feasibility (in red), and Business Viability (in green)21 Page 99 Customer Segments: This builds from your customer workup in the screening process. Note there is often more than one type of customer (e.g., individuals vs. big corporations, athletes vs. nonathletes). Each type is called a customer segment, and each will have a different problem and need a solution and value proposition that fits his or her situation. So you are likely to end up having multiple copies of the canvas—one for each customer segment. Problem: What problem (also called a pain) is faced by customers that you are seeking to solve? A variant of a pain is your customers' dreams of better ways or things, which we call a gain. Solution: Here is where your offering goes—how you plan to handle the problem-solving pains or create gains for your customers. Value proposition also comes from the screening, and will differ for each customer segment. What will make your solution the best available fit (i.e., the most valuable available alternative) to what the customer wants or needs? When you think of how your solution fits with the customer's job for each segment, you're considering issues related to market desirability. When you think how your solution value gives your firm a distinctive competence over competitors, you're considering issues related to technical feasibility. Channels: How will you get your product or service to the customer? Selling directly is great (you control the process), but is often expensive or hard to get going. So if you're selling through others, how do you arrange to be heard and seen by your customers? Think of small hotels that use their websites (direct selling) but also sell through Expedia, Trivago, AAA, AARP, and others to get you to buy a room. Customer Relationships: The best customers are ones that buy again and again and recommend you to their friends. The product or service is part of it, but most often it is the way you treat and take care of your customers that makes the greatest difference. How will you take the best care of your most important resource—your customer? Revenues: How do you make money solving the problem and selling to your customers? How many different ways can you get revenues? Freemium models give you something and let you buy add-ons. Subscription models have ongoing streams. Big-ticket items like cars offer additional services such as financing, extended warranties, and dealer service to get more of your car dollars. Key Resources: What great thing do you or your firm have that no one else does? Exclusive rights to the name of the latest rap star or the work of a rising manga artist? A lock on the only source of morel mushrooms in driving distance? A salesperson loved by everyone? A to-die-for clothing designer? The perfect location for your type of business? The best app programmer around? Remember from Chapter 3 the six types of resources? Any of them can give your firm its edge against the competition, and those resources are the key ones. Key Activities: What will be the most important activities in

your business—the ones most central to your doing the job right and making the firm successful? Take the value proposition and ask yourself what has to happen to deliver the value you're promising your customers. For a restaurant with a food focus, it means the food has to be the best it can be. For a restaurant that wants to be "the place to be," décor and location may be the keys to delivering on the promise. Key Partners: Your team is the starting point for your partners. Your staff are key to the basic work of your business (they are in the green part of the box). But few start-ups can do everything themselves, so ask which individuals and organizations can help make you successful and able to deliver on the promise in your value proposition. Well-regarded suppliers of your raw materials, corporate partners that inspire confidence (e.g., IBM, Amazon), a well-connected attorney or accountant, an advisory board member known and respected by all—these are potential examples of key partners (in the red part of the box). Even a one-person business can have a village of key partners. Costs: Many of the other boxes require actions or purchases to achieve their ends. When we consider all of those costs, and the other general costs of any start-up (salaries, filing fees, inventory or manufacturing costs, etc.), what are the costs? We compare these costs to the revenues and make our initial assessment of the profit potential of the business. Page 100 Figure 4.7 gives Pet Élan's business model canvas. To analyze feasibility using the canvas, we first compare the fit by customer segment to the value proposition, problem, and solution. The four should strongly reflect one another and reflect something customers in the segment will love and buy. If the customers do love it, we analyze the market factors, everything from value proposition to the right edge of the canvas, for their fit—are we doing everything we need to in order to connect with, sell to, satisfy, and keep the customer? For Pet Élan, the elements seem to fit, but it would be crucial to check with potential customers to make sure the concept is on track. FIGURE 4.7Pet Élan's Business Model Canvas Then we look at the fit of the organizational factors (from the value proposition to the left edge of the canvas)—are we doing the right things in the best way possible with the best team and lowest cost to make the business itself a success? Again the fit seems to work, but making sure the key activities and solution fit what the customers want (seen in the Value Proposition box) needs checking with potential customers. In reality, it is rare that a first-time canvas is seen as feasible right off the bat. That is all right. Canvases are made to be revised (use Post-it Notes at first—really!) so be ready to do it for every segment you have. Feel free to drop, add, or change segments. For Pet Élan, another segment consisted of customers who will do an occasional splurge on their pet—a reasonable market, but a less consistent source of revenues than the pet pamperers. Doing something great for one segment may be enough to make a good living and change your customers' worlds for the better. When you have a solid idea based on the business model canvas, the next step in the entrepreneurial process outlined in Chapter 1 is to create a business plan to map out and get control of the details of the business.22

LEARN MORE ONLINE Learn more about the topics above at these sites: Business model canvas starter video: www.youtube.com/watch?v=QoAOzMTLP5s (Strategyzer has more training videos on its channel) Disney's business model canvas: www.youtube.com/watch?v=Dqakc-VuKjs&t=35s Isaac Jeffries IDEO screen and business model canvas: https://isaacjeffries.com/blog/2017/3/3/bmc-part-one-how-to-use-the-business-model-canvas?rq=lenses Canvanizer's free online business model canvas: https://canvanizer.com/new/business-model-canvas BMfiddle's free online business model canvas: https://bmfiddle.com/ Page 101 An interactive way to test the fit of the solution and value proposition to the customers is using a low-cost, low-risk approach for testing feasibility called an online pilot test, shown in Figure 4.8. In this approach, you deploy a basic informational website describing the products or services you want to offer, and start advertising it. You track the number of people who check out the site, where they came from, their demographics, and in particular the number who give their email address to be informed when the product or service is available (this is called the conversion rate). Typically two or more versions are run (called A/B testing).23 FIGURE 4.8Online Pilot Testing Procedure Based on the feedback from customers and visitors, you quickly fix (revise) what does not work and reinforce and promote those things that seem to work best. These changes are done quickly, usually over a few days, although if response is strong enough, over a few hours. This process gets repeated continuously until a highly accepted version of the idea emerges, or it becomes evident that the idea does not make a viable business regardless of the revisions tried. The strategy for using the online pilot test approach is to show potential partners, investors, or bankers that the idea can generate sales. In the spirit of "the proof is in the pudding," showing customer interest in potentially obtaining the actual product or service, and being able to say how many visitors became customers—the conversion rate— are powerful ways to prove your idea is potentially feasible. For small-scale ideas or those that lend themselves to a web-based approach, the online pilot test model can give powerful results quickly and painlessly. LEARN MORE ONLINE Learn more about the topics above at these sites: CXL's guide to A/B testing (and a free ebook): https://conversionxl.com/blog/ab-testing-guide/ Wix Academy's landing page advice: https://academy.wix.com/en/landing-pages/what-is-a-landing-page (Wix offers free websites for landing pages) Unbounce's A/B testing advice page: https://unbounce.com/a-b-testing/ If you plan to go from an IDEO screen to a business model canvas to a business plan, you need to know that there is a lot more information in a classic feasibility study than in the business model canvas discussed above. But there is an expanded version of the canvas, called the business model environment, which captures and positions a lot of the data needed to build on in preparation for a business plan. Figure 4.9 shows the forces external to the firm that have an impact on the firm described in the canvas. The key trends and macroeconomic forces are introduced in Chapter 3. Industry and competitive analyses

you'll learn more about in Chapter 7, while market forces will be considered in Chapter 10. You'll also see how these get handled in the business plan in Chapter 8. FIGURE 4.9The Business Model Environment Source: Strategyzer, https://blog.strategyzer.com/posts/2015/10/14/how-to-scan-through-your-environments-disruptive-threats-and-opportunities. 4-7 Describe how to conduct a comprehensive feasibility study for your business ideas. The Classic Feasibility Study The other typical approach for evaluating ideas that survive your IDEO screen is called the feasibility study. Feasibility studies consist of careful investigation of five primary areas: the overall business idea, the product/service, the industry and market, financial projections (profitability), and the plan for future action. Within each of these areas you will examine the strengths and weaknesses (advantages and disadvantages) of your business opportunity. Exhibit 4.2 shows a descriptive outline of a feasibility study,24 which includes a brief explanation of the areas that will help you decide whether your idea or opportunity can be a feasible business. A complete feasibility plan for Pet Élan is included in the appendix at the end of this chapter so you can see what it looks like in practice. EXHIBIT 4.2The Feasibility Study Outline The Business Idea • Description of Your Business What business are you really in? Describe your product or service in the most concise way you can, and think beyond the characteristics of the product or service to the experience that you hope the customer receives from buying the product or service. • Your Customers Who are your customers? Demographic information tells you all about your customers' personal characteristics such as where they live, how much household income they have, and how many children they have. You can find very specific information in your library or online using zip code resource sites like www.zipwho.com, www.censusscope.org, or www.city-data.com. What are your customers' preferences, values, and attitudes that relate to your business? How will you find out what your customers think or intend to buy? How can you find out what problems they have, what they need, or what they want that they don't know yet! Use your creativity to learn as much as you can about your potential customers. If you have more than one target market, do this for each market segment. It's important to note the different benefits and limitations for each customer group. This is developed from the Market Desirability section in your IDEO screen. • Trends Related to the Product or Service How will you keep your finger on the pulse of change in your product or service area? What trends are likely to occur in the way the product is used, or what features it offers, for example? The Product/Service • Product/Service Description What exactly are you offering? What are the unique features of the product or service? How do these features meet your customers' needs or preferences? Describe your product or service very simply, and use photos or drawings to illustrate how it works. This is developed from the Technical Feasibility in your IDEO screen. • The Competition Who are your primary competitors, and what are their distinct advantages and disadvantages? Consider not only your direct competitors, but

also your indirect ones who might be selling a substitute for your product or service or bundling your product with something else they provide. • Competitive Advantage After considering your competition, your offering, and your fit to the customer, what are your competitive advantages? Why do you believe they exist, and why do you think these will help you succeed in the marketplace? • Market Penetration How will you reach your target customers? Will you be producing or subcontracting out the manufacturing or delivery of your product or service? List all the costs, including labor, supplies, shipping, repairs, and so forth. What forms of distribution or selling will you use? How will your potential customers become aware of your business? How will you advertise? What would your selling process look like in the different channels you have? What will your customer service look like? The Business • Description of the Entrepreneur (or Team) What do you bring to this idea or business? How well does this product or service fit with your knowledge, skills, abilities, networks, and experience? How determined are you to bring this product or service to market? If you are already in business, how does this idea fit with the other products or services you sell? This is developed from the Technical Feasibility and Business Viability sections in your IDEO screen. • Stage of Development Is the product still in the idea stage, or is there a model or working prototype available? Have any samples been manufactured? If it is still in the idea or prototype stage, what is the time frame for getting it ready for production? • Legal Issues List any patents, copyrights, trademarks, licenses, or domain names that apply to your product or service. If you are entering into a franchise agreement, partnerships, distributorships, and so on, these should be discussed in this section. Seek the assistance of patent attorneys or intellectual copyright specialists for assistance. Also list the government regulations you must adhere to, such as the FDA, EOA, OSHA, IRS, secretary of state, and research zoning restrictions carefully. If you will be home-based and your clients will be coming to your house, will this be impacted by your neighborhood's zoning restrictions? Note your legal form of organization and state of registry. • Insurance Requirements Research the liability of your product or service and consult an insurance specialist to be sure you are protected adequately. This will depend on the nature of your business. A flower shop that sells floral arrangements is in a different liability situation than a pet grooming business, for example. If you have employees, you will need insurance to protect them from harm also, along with any insurance benefits you want to provide your staff. Future Action Plan • Summary Feasibility Evaluation Considering everything you have discovered above, do you see this idea as holding enough possibility to be workable and successful that it warrants next steps? What is your basis for making this judgment? Likely outcomes are either confirming the idea as feasible, holding off concluding until you learn more, or realizing the idea is not feasible in its current form (which might prompt you to change your approach, try something else, or drop thinking about a business for now). • Next Steps The direction this takes depends on the Summary

Feasibility Evaluation above. If the idea is feasible, you will probably need to start working on a business plan and other start-up actions. If there are questions, you must list the research you need to undertake to get answers. Pivoting your idea or thinking of new ideas or locations represent a different type of research. For all of these issues, list the individuals or groups you could consult for advice, or add an advisory board consisting of people with experience in your industry and professionals from other industries. • Start-Up Capital If you see the business as feasible a key question is, how much money do you need to start the business? In addition to the cost of goods sold that you calculated and your marketing and administrative expenses, what additional costs do you have such as renting space, utility expenses, and salaries? • Sources of Start-Up Capital Where can you obtain the money you need to start the business? Consider all the sources available to you such as personal savings, family and friends, bank loans, investors, and so on. The Financial Projections • Assumptions Put together a list of all the assumptions on which you are basing your financials—start-up and ongoing costs (also called operating expenses), pricing, sales projections and how you arrive at them, and how profits are computed. Do a breakeven analysis (see Chapter 13) somewhere in your financials, and also be sure to note somewhere what are your fixed and variable costs. • Summary Financial Table Develop a basic three-year summary of your financials. The typical rows are: Revenues, Cost of Good Sold, Gross Margin, Operating Expenses, Net Profit (or loss) [which is figured pretax]. The development of these projections is detailed in Chapter 13. • Three-Year Detailed Financials These are the detailed financials from which the three-year summary given above are based. The typical format is detailed in Chapter 13. Typically you will give monthly numbers for the first year and cumulative numbers for years 2 and 3. • Start-Up Budget This listing gives the costs you will incur starting up your business, including legal costs and other professional fees, initial inventory or manufacturing costs, building and fixture costs, and technology costs. Page 104 In crafting a feasibility study, such as Pet Élan in the appendix at the end of this chapter, the goal is to assess if the idea can be profitably brought to market. The traditional problems facing new ideas are (1) the idea cannot be economically made into a product or service; (2) the resulting product or service works, but does not appeal to a large enough market (or is not worth enough to them) to make the effort profitable; and (3) the product or service works, has a market, and could be profitable, but you need to get additional people, funding, or other resources to make the idea into a business. Notice that each problem builds on the solution of the prior problem. As with idea screenings, having no solution for one of these problems may not spell the end of the process if you can use creative solution approaches like SCAMPER (introduced earlier in this chapter) to come up with a new way to resolve or sidestep problems. As you can see, the business model canvas and the classic feasibility study produce very different results. The canvas can be made much more quickly, but if the idea

proves feasible, the resulting business plan will require more work, especially on details like legal issues and the financials. But if you are considering a couple of ideas, a canvas can help you decide more quickly than a classic feasibility study and with a better overall assessment than the IDEO screen. When you have one idea, there is no substitute for the classic feasibility study, since it will get you to consider a much broader range of business issues and point you to the kinds of issues you will have to deal with in the business plan itself, saving you time when you do your plan. From the entrepreneurial process model in Chapter 1, either of these help you think about your business idea and both position you for your plan, so whichever approach you use, you'll be preparing yourself for the next step in the process of launching your start-up. Page 105 Often a feasibility study will lead to a decision either to keep pursuing the opportunity or to wait for a better time to move forward with the decision (perhaps in a better economy, or when the market matures, or after you get additional experience or training), or to stop working on the idea and look for something else. When you decide in a feasibility analysis to go with the idea, very often the next step is to begin working on a full business plan, which capitalizes on many of the things you have written about in the feasibility study. Business plans are more involved than feasibility analyses, and in Chapter 8 you will see not only how to create a business plan but also how business plans and feasibility studies relate to one another.

Ways to Keep On Being Creative 4-8 Recognize the value of building a creative culture in your business. Once you have generated your business ideas, screened them, and evaluated a few of them to find one that is feasible, you have completed the opportunity identification and evaluation process. But this process never really ends. Even after you are well on your way to starting a business and even after your business is successful and you have met your initial goals, the nature of entrepreneurship and small business is that you will always be on the lookout for new opportunities. Successful business owners never rest on their laurels and assume that, since they have achieved success, it will always be there. One of the pitfalls small business owners can fall into is to fail to build a company culture—a way of thinking and behaving—that encourages new ideas and embraces change. This is especially important if you employ or plan to employ other people. There is nothing as discouraging as working for someone who feels there is nothing new you can possibly contribute to the business. You would be surprised to learn how many business owners have this mentality. Here are some ways you can avoid this and build a company that is "idea prone." You will find that you can attract more creative employees and get more useful ideas out of them that affect your business's bottom line by following the

recommendations given in Skill Module 4.3. SKILL MODULE 4.3 Great Ideas for Making Idea-Prone Companies Give yourself and your employees time to think of ideas. While it can seem that there is never enough time to get everything done and deadlines are always looming, you can't afford not to take the time to come up with new ideas. Allow even just a few minutes every day to discover what your customers or employees are thinking and what problems or frustrations they may be experiencing. Ask your employees what they are working on, where there may be problems, and what ideas they have for solving them. Positively reinforce ideas25—avoid the automatic no. As discussed earlier, don't rush to judge ideas. It's the process of coming up with ideas that needs to be reinforced, not whether the idea is good. Evaluation can come later. Look to unlikely sources of opportunities. You never know where creativity and innovation will emerge. Think beyond your age group, socioeconomic status, and education. Get a room with a view. Give your employees—and yourself—varied experiences. Get away from the office, go visit customers, allow employees to learn one another's jobs, and so on. It enables people to get a different perspective, and it is when we can change our routine that breakthrough ideas often can be discovered. An innovative company does not automatically develop out of an innovative business idea. You have to deliberately set your expectations and communicate them to your employees. Remember that recognition is fuel—it fans the fires of creativity and helps your business reach potentials that you may never have anticipated. Einstein said, "Creativity is contagious . . . pass it on." As the business owner, you are in a unique position to make sure that people's brains don't stop at your company's door. Page 106 Even if you are a solo small business owner, you can take steps to keep yourself in an innovative frame of mind.26 Here are some techniques you can try as you practice the business of innovation on your own: Read magazines or trade journals outside your area. Invite someone you never included before to a meeting at which you are solving a problem or searching for a new opportunity. Try a supplier or a friend who works in a different field. Have a "scan the environment" day in which you discuss trends and happenings that could impact your business. Try a mini-internship. Ask a colleague or friend if you can spend a day at his or her business to see what you can learn that may be applicable to yours. Instead of trying to simply sell your product or service to customers, put yourself in their shoes and ask them what frustrates them most or what problems they cannot seem to solve that relate to your business. Redesign your work environment. Get a room with a view.27 This doesn't have to cost a bundle in remodeling or even redecorating costs. Try to bring in some items from nature and add color and inspirational objects or quotations. Innovation is at the heart of entrepreneurship because every time people start a business or become the owner of one, it is a new start and often a new experience for them. Some businesses are themselves built on new ideas or new twists on existing ideas. For these kinds of situations, taking some time before committing your money to think about which

ideas make the most sense as a profit-maker can save a lot of grief later on. That is where the opportunity identification process, the idea screening process, and feasibility analysis come in to play. It is also true that one of the greatest challenges facing a business is getting control over the process of change—knowing when and how to change and try something new. Sometimes even thinking in new ways can be difficult, and that is when techniques like SCAMPER can make all the difference. The point is that while many people think innovation is a bolt from the blue, unpredictable and uncontrollable, in reality it is anything but that. That is good news because it means that one of the most powerful techniques for building your business is under your control.

CHAPTER SUMMARY 4-1 Identify strategies for innovation in your business. Opportunity recognition is one of the most basic entrepreneurial behaviors. Entrepreneurial alertness means that entrepreneurs have a special set of observational and thinking skills that help them identify good opportunities. There are three innovative strategies small business owners can select: Imitative strategies take an idea that somebody else has already discovered and build a business around that idea. Incremental strategies take an idea and offer a way to do something better than it is done now. Radical innovation strategies reject existing ideas and present a way to do things differently. 4-2 Recognize the sources of opportunity entrepreneurs draw on to get business ideas. In terms of the entrepreneurial process (feel, check, plan, do), entrepreneurs sense or feel the presence of opportunities as they begin the start-up process. It can take many ideas to find a potentially successful one. Big businesses need 3,000 ideas to get one successful product. Opportunities can be pursued in an effectual or causal way. Ideas for new businesses come from a great variety of sources. These include work and personal experience, imitation of a similar business, a chance happening, discussions with family and friends, education and experience, and online searches for "idea sites." Page 107 4-3 Understand how creativity methods can help business owners recognize new opportunities. Creative methods help you identify opportunities beyond what everybody else already knows. SCAMPER is a tool you can use to trigger new opportunities for your business. The creative process has four stages: preparation, incubation, illumination, and verification. 4-4 Understand the five pitfalls that hinder innovation. Identifying the wrong problem. Judging ideas and opportunities too quickly. Stopping with the first good idea. Failing to act. Obeying rules that don't exist. 4-5 Identify how to screen ideas for business potential. The goal of the screening process is to quickly evaluate large numbers of ideas to eliminate those less likely to work for you. In assessing the potential viability of your business idea, there are three sets of questions to

answer as part of an IDEO screen: Market desirability: Do people (your customers) really want the solution being offered? Technical feasibility: Can the solution really solve the problem, and can we make it? Business viability: Can we make the solution and make money doing it? These questions can be evaluated qualitatively, quantitatively, or both. One of the keys to test these ideas is to perform customer job interviews with actual potential customers. 4-6 Describe how to construct a business model canvas to assess the feasibility of your business idea. Business models are ways to identify and organize key information on organizations and how they achieve their goals. The business model canvas builds on an IDEO screen to generate a more in-depth look at the elements of the business and how they fit together. The goal of a canvas is to identify an opportunity that would appeal to customers, compete well, and generate a profit. Business model canvases are evaluated by the concreteness of their answers and the fit between subsets of the 11 boxes. For Internet-based sales and service businesses, it is possible to pilot test the idea online. An expansion of the canvas, called the business model environment, can help bridge the information from the canvas to that needed for business plans. 4-7 Describe how to conduct a comprehensive feasibility study for your business ideas. Conduct an analysis to determine whether or not your business idea is feasible. Start with the business idea—your general business description, its customers, and the trends affecting customers now and into the future. Follow with the product or service: describe it in detail, tell us about the competition, what is your competitive advantage over them, and how you will go about marketing and selling your product or service. Next describe your business: Start with you and your team, the firm's stage of development, and the legal issues and insurance requirements you face. Conclude the narrative with your future action plan: Give your summary feasibility evaluation, your next steps, the start-up capital needed (if you intend to go ahead), and the sources for the capital. At the end put the financials: Start with the assumptions on which you are basing your financials, include a breakeven analysis and details of your fixed and variable costs, then include a summary of the three-year financials, and provide a spreadsheet with the detailed costs and revenues for the projected firm. This should be monthly for the first year, with aggregate totals for years 2 and 3. The financials should also include the start-up budget listing expenditures to get the business to opening day. 4-8 Recognize the value of building a creative culture in your business. Build a company culture that values new ideas and embraces change. Create slack time to enable employees to think of new ideas. Positively reinforce ideas others bring to you. Look to unlikely sources of opportunities. Get a room with a view and establish an environment that stimulates innovation. Use techniques to help you get into an innovative frame of mind. Read outside your area, invite a "wild card" to a business meeting, have a "scan the environment" day, arrange a mini-internship, solve your

customer's problem rather than selling a product, and redesign your work environment to stimulate your innovative skills.

KEY TERMS opportunity recognition entrepreneurial alertness imitative strategy incremental strategy radical innovation strategy causal model of entrepreneurship retail arbitrage license licensee licensor royalty creativity brainstorming painstorming IDEO screen design thinking customer job feasibility business model customer segment pain gain value proposition freemium pilot test conversion rate A/B testing feasibility study target market

DISCUSSION QUESTIONS How do entrepreneurs recognize new ideas for their business? What are some common ways you can search for new business opportunities? What are the differences among imitation, incremental, and radical innovation strategies? How can you assess which one is right for your business? How can entrepreneurs quickly screen large numbers of new ideas? What is a business model canvas, and how do you use it to assess the potential of a business? What should a good feasibility study contain? What questions can it help you answer to determine if your business idea is a sound one? What pitfalls should you watch out for as you are searching for new opportunities? How can entrepreneurs ensure that their business stays innovative and fresh? Why do you think some small businesses lose their creative edge as the business grows?

EXPERIENTIAL EXERCISES As you go on errands or walk around your campus, notice all the things that you could improve. Make a list of things that frustrate you or things that could be made even better. Does your list surprise you in terms of how much you noticed? This is a variation of the painstorming technique. List 15 new uses for a popular product or service. Try paper clips, or coffee mugs, or home delivery. Use SCAMPER to generate new uses and make connections to other uses. Interview a local business owner and ask how he or she thought of the idea behind the business. How does the business develop new ideas now? Do some research on innovative companies in your area. What sets them apart? How are they designed to take advantage of the innovativeness of their staffs? Next time you are working on a problem or looking for new ideas (Your major in college? Where to move on

campus? What do to this weekend?), go to a museum, a park, or anywhere outside the ordinary places you frequent. Were any new ideas suggested to you? Keep a journal in which you can record your ideas as they come. Sometimes we get breakthrough ideas while our brain is incubating as we sleep. By the time we wake up in the morning we have lost them, so keep your journal near your bed. Pick a business idea and research its industry and market. What did you learn? What are some creative questions you might ask about contemporary trends in this business? How could you find out the answers?

MINI-CASE TIM HAYDEN AND THE MISSED HOME RUN28 Tim Hayden had been an avowed "sports fanatic" all his life. Friends could set their clocks by Tim. He was always watching games in the stands or on TV. Of all sports, he loved baseball the most. Sitting in the bleachers at the home of the St. Louis Cardinals, Busch Stadium, what he was sensing there distressed him. It seemed that fewer people were in the stands than in earlier years. He wished he could do something about it. The final push to action for Tim came in 1998 when Mark McGwire crushed his 70th home run on his way to a baseball record. Tim and his father were sitting in the stands that historic night. However, they missed seeing the home run because they were standing in line at the concession stand. As McGwire rounded the bases, Tim's friends at home were watching numerous instant replays from every conceivable camera angle while listening to the commentators talk about inside stories. In addition, they could see the exact positions of each pitch location and the in-depth scouting report on McGwire's home runs. But here he was in the stadium, where he had paid good money for the ticket. And yet the best seat in the stadium was at home in front of his big-screen TV. At that moment in 1998, Tim realized that others might be thinking the same way. He thought he finally knew one of the reasons why attendance was down. Sitting at home with a large-screen TV, the refrigerator nearby, the bathroom a few steps away, the seat comfortable and the room air-conditioned, how could the stadium compete? Television baseball had become so much more detailed and informative than the in-stadium variety, with last pitch graphics, hit location graphics, and detailed stats on all the players constantly shown on the big screen at home. The "best seat in the stadium" had indeed shifted to home, and the fans with it. Tim sensed a business opportunity in that shift. Sports teams had to bring fans back to the stadiums, where teams make their most profit. He also realized that for a fan, there was an undeniable energy being among tens of thousands of fellow fans with the chance to personally see that once-in-a-lifetime play. Being digitally savvy, he knew that combining a fan's personal cell phone, Wi-Fi, and a web-based application, he could bring the at-home experience into the stadium. Fans sitting in

the stands could see any instant replay from dozens of camera angles, as well as all the cool graphics that you see on TV, with the ability to order food and drink to their seat, and maybe connect with other fans in the stadium. And even better, it could all be on-demand. From his own pain, the feelings of other baseball fans, and over the next four years a careful study of the trends in the various sports leagues and televised sports, Tim Hayden realized that the enhanced digital experiences (they weren't as prevalent in 2002) and new TV graphic techniques of sports broadcasters had fundamentally changed the environment for sports watching. It also opened up a business opportunity. CASE DISCUSSION QUESTIONS Was the opportunity Tim was thinking about an imitative, incremental, or radical innovation strategy? For Tim, which seemed to come first—thinking about creating a business, thinking about a business idea, or both at once? Using the ideas in Exhibit 4.1, what were the sources of Tim's business idea? What do you think was key to Tim's making the jump from a problem to a business opportunity?

APPENDIX: A Sample Feasibility Study Pet Élan I. THE BUSINESS IDEA Description of Your Business In recent years, there has been an increase in the number of households that have pets, especially dogs and cats. Further, there is emerging a steadily growing group of pet owners that is willing to purchase upscale, unique products for these important members of their family. Pet Élan is an upscale boutique for these discriminating pet owners in Lakeview, Illinois (zip code 60657). Pet Élan will offer high-quality pet products to discerning individuals who wish their pets to enjoy a healthy, fun, and elegant lifestyle while being pampered. By carefully selecting luxurious accessories made with superior materials, Pet Élan will provide an elite product line that celebrates the uniqueness of each animal's personality. Your Customers According to the American Pet Products Association (APPA; formerly called the American Pet Products Manufacturers Association), 68 percent of households in the United States own a pet, and 46 percent of households own more than one pet.29 As income increases, the percentage of households with a dog increases as well.30 In fact, 75 percent of the households with dogs have a combined income of greater than $35,000. This is consistent with the specific market profile of the clientele Pet Élan plans to target in the 60657 zip code. There are 39,846 households in zip code 60657, with a median household income of $55,647.31 Applying the APPA statistics, this means an estimate of 27,095 households with pets as our overall market, with 77.8 percent or 21,079 pet-owning households with an income greater than $35,000 as Pet Élan's target market, which is graphically shown in the pie chart.32 Trends Related to the Product or Service Several studies show that pet ownership is at an all-time high and that people are

taking better care of their pets and spending more money on them than previously. As a result, the pet products industry is booming. Americans spent a total of $34.4 billion on pet food, care, and supplies in 2004, and the industry is estimated to increase to $35.9 billion in 2005. Sixty-five percent of this estimated total was spent on food and supplies alone (supplies also included medicine).33 The upscale pet services industry was named as a hot market by Entrepreneur magazine in its annual prediction of the hottest business ideas for both 2004 and 2005.34 The APPA also cites luxury, natural, and hygiene products as the top three among its top ten trends in pet gifts.35 In fact, the APPA further notes that high-tech and high-end products such as tech-enabled dog collars are showing the most growth.36 Similar to the human food industry, pet food trends are moving toward more organic and natural products. The Organic Trade Association reported that organic pet food sales are up by 63 percent from last year and are growing at almost three times the rate of human organic food sales.37 Despite this promising growth and if the economy contracts, customers may have less disposable income. The percentage they intended to spend on their cat or dog may be diverted for necessity purchases. However, according to pet industry analyst Julia Dvorko, “Owners tend to pamper their pets even when they have to cut back on [household] spending. After all, even during economic downturns, people give gifts to family members and buy special treats for their children."38 II. THE PRODUCT/SERVICE Product/Service Description Pet Élan will offer carefully selected premium products that promote a healthy, fun, and elegant lifestyle for dogs and cats. Our products are grouped into four primary categories: dietary products (pet foods by Newman’s Own Organics,39 Natura Pet Products,40 Organix,41 and snacks and treats from Old Mother Hubbard,42 Three Dog Bakery,43 Flint River Ranch,44 and Howling Hound Bakery45); playtime products (dog toys for chewing, retrieving, tugging, and chasing, and cat toys for chasing and fetching from Happy Dog Toys,46 KONG Toys,47 and Fat Cat, Inc.48); travel accessories (leashes, collars, and travel bags); and home accessories (food and water bowls, pet furniture and pillows, and pet clothing from The Small Dog Company,49 Dogz Togz,50 and Ruff Ruff and Meow51). Page 111 The Competition Pet Élan plans to open in the 60657 zip code area of Chicago, Illinois, locally known as Lakeview. There are 23 pet-related businesses in this zip code: 9 are veterinarians, 3 are pet sitting/walking services, 3 are pet grooming services, 3 are large chain pet stores (1 PetSmart, 2 Petco), 2 combination pet grooming/accessories stores, 1 combination boarding/training store, 1 pet adoption/accessories store, and 1 boutique called “Sam & Willy’s: A Bow Meow Boutique.” While not competing directly in the 60657 area code market, national companies including Paul Mitchell and Origins are now offering lines of pet products ranging from dog shampoo, pet attire, and name-brand toys to gourmet treats and food.52 Although these companies have recognizable brand identities, they do not specialize in the pet retail market. They do not carry a full line of pet products as Pet Élan

will, and they cater more to impulse buyers rather than discerning pet owners. The following table compares the strengths and weaknesses of a subset of the competitor pet stores in the 60657 zip code, as well as online retailers, and highlights the differentiating features of Pet Élan. Competitive Analysis of Pet Stores Table Summary: Table divided into four columns compares four pet stores based on their unique selling proposition. The column headers are marked from left to right as: competitor pet stores in zip code; strengths; weaknesses; differentiating features of pet élan. Competitor Pet Stores in Zip Code Strengths Weaknesses Differentiating Features of Pet Élan Area pet grooming/accessories stores Customers shop while pets are groomed Limited selection Pet grooming, not product sales, is core competency Core competency is selling luxury pet products and accessories Petco53 Brand identity All-in-one stores Wide selection Online shopping Limited number of brands in pet clothing and accessories Inexperienced sales associates Products are high end for discerning pet owners Pet Élan builds personal relationships with customers PetSmart54 Brand identity All-in-one stores Wide selection Online shopping More pet clothing and accessories brands than Petco, but not high-end brands Inexperienced sales associates Products are high-end for discerning pet owners Pet Élan builds personal relationships with customers Sam & Willy's: A Bow Meow Boutique55 Accessories and gifts in a boutique setting Provides variety of organic pet food brands Static website Sponsors local animal shelters but doesn't have social entrepreneurial mission Website provides tips and trends for hip pet owners Five percent of pretax profits goes to a local no-kill animal shelter Online Stores One of the largest threats to the luxury pet accessory indus-try is the presence of online stores. Pet Élan will compete with these online retailers, as well as other local pet stores. Consumers have the opportunity to comparison shop on the Internet, so Pet Élan will need to carefully determine the pricing strategy for each line of accessories to remain competitive. However, it is likely that pet owners will want to sample and view unique products we carry and will be willing to come to our store for its one-of-a-kind shopping experience—and bring their pets with them. The rise of larger chain pet stores, like Petco and PetSmart, has made it much easier for pet owners to sat-isfy all their pet needs in one place. These stores are now offering pet apparel, pet furniture, and natural pet food. Pet Élan will offer a higher-quality, but more expensive, product mix that may overlap with these stores in some ar-eas. To counter this, Pet Élan will showcase the products we carry that cannot be obtained at the larger retailers. Competitive Advantage Pet Élan's competitive advantage is quality and the ability to provide customers with the feeling that pampering their pets is an integral part of a healthy, fun, and contemporary lifestyle. Pet Élan must establish this reputation through high-quality products and selective advertising and through exceptional customer service. Page 112 Market Penetration Pet Élan will serve customers in a boutique setting where pets are welcome to browse along with their owners. The store will operate with a social

entrepreneurial mission and will donate 5 percent of pretax profits to a local no-kill animal shelter. Consistent with this socially responsible mission, Pet Élan will work with other area pet-related businesses to form a network of highly qualified veterinarians, as well as well-established boarding, grooming, in-home sitting, and training service providers. By connecting Pet Élan customers with reliable service providers, Pet Élan will also benefit from the reciprocal referrals from these service providers. Pet Élan will also maintain a website, but initially only to provide the location and hours of operation. As the business grows, the website could include tips and trends information for current and future consumers to keep up with the latest in pet fashion accessories. Pet Élan will seek assistance from a local college or Small Business Development Center for the website and marketing research assistance. When the Pet Élan storefront opens, we plan to advertise by hosting a series of pet fashion shows, combined with an adoption event with local pet shelters. The events will raise awareness among clientele and would help a good cause. Until Pet Élan breaks even, the store will rely on the advertising and public relations from partnering with other service providers to draw customers into the store. III. THE BUSINESS Description of the Entrepreneur (or Team) Randy Miller will be the owner of Pet Élan. Randy has been interested in pets since childhood, and has worked for vet clinics, the Humane Society, and a local zoo in pet care. Randy is currently employed full time at a local discount retailer. Randy's other retail experience includes work in local pet stores in animal care and sales, as well as retail experience at PetSmart. Randy's self-employment experience started as a teen, with child care and yard care businesses. Randy's education includes a BA in entrepreneurship from DePaul University. Although employed full time, Randy will leave to give 100 percent effort to the start-up of Pet Élan. The owner will be the primary employee of Pet Élan for the first three months of operation. Beginning in the fourth month of operation, Pet Élan will hire one full-time sales associate. As the business grows, Pet Élan anticipates hiring a second full-time sales associate during the second year of operation. The full-time sales associates will assist the owner with customer service and other retail functions. Stage of Development Pet Élan is currently in the idea stage. This feasibility study is the first step in exploring the market potential for a luxury pet store. The current time frame for introducing Pet Élan is one year. Pet Élan has set the following milestones to accomplish prior to launch: Complete feasibility study: month 1. Begin and complete business plan and identify location: months 2–4. Pursue start-up capital: months 5–6. Receive start-up capital: month 7. Secure store location and secure appropriate permits: months 7–8. Plan and order inventory: month 9. Receive inventory and set up store: months 10–11. Store launch: month 12. Legal Issues Pet Élan will operate as a Sub-Chapter S Corporation to ensure limited personal liability and for tax advantages. Pet Élan will have one owner, who will have day-to-day responsibility for running the business. The corporation will receive all income generated by the business

and pay the owner a salary and/or reinvest in the store. A board of directors will be appointed by the owner. The company will register its name with the state of Illinois, and buy the domain name petelan.com (or if it is not available, petelanlakeview.com). Insurance Requirements Pet Élan will purchase property and liability insurance policies to protect the corporation's assets.56 As an employer, Pet Élan will also need to secure workers' compensation insurance and unemployment insurance.57 IV. FUTURE ACTION PLAN Summary Feasibility Evaluation Overall, the idea for Pet Élan seems feasible. Statistically, the Lakeview area should have a large number of high-income households with pets, and national market indications suggest these people would appreciate a premium pet products store like Pet Élan. Randy Miller has the requisite experience in retail and with pets to make this store workable, and the general model for such retailers is well established. Assuming he can get the bank loan (most likely as a personal loan), he should be able to start and make a go of the business. Next Steps To ensure the successful opening of Pet Élan, we must have a deeper understanding of the customer needs in the area. Conducting marketing research in the 60657 zip code area, using techniques such as surveys and/or focus groups of customers in Pet Élan's target market, could assess these needs. Pet Élan should also begin to approach other pet service providers in the area to explore potential partnership opportunities that could help raise awareness about both Pet Élan and the partnering business. This would also allow the owner of Pet Élan to form a network within the local pet products and services industry. With these steps completed, creating a business plan would be necessary to secure the loan and investors noted below. Pet Élan will review the initial draft of the business plan with a volunteer from the Service Corps of Retired Executives (SCORE) or the local Small Business Development Center. Page 113 Start-Up Capital To start the business, Pet Élan will need to have enough start-up capital to cover leasing costs to secure the storefront location. The start-up capital will also need to cover insurance and operating expenses including appropriate licensing, store utilities, and professional services such as legal and accounting assistance. Initial inventory, as well as retail equipment needs (such as a cash register) will require a large initial investment. These needs will be funded through the start-up capital that Pet Élan secures prior to opening. The amount needed is estimated to be $70,000. Sources of Start-Up Capital The start-up capital of $70,000 is composed of 45 percent (or $31,500) of the owner's personal savings, 25 percent (or $17,500) of a bank loan, in addition to two equity investors (one family member of the owner and one local veterinarian), each with a 15 percent stake (or $10,500) in the company. V. THE FINANCIAL PROJECTIONS Assumptions Pet Élan made the following assumptions in putting together the sales revenue forecast for the first three years of operations: Pet Élan will sign a three-year rental agreement for a 2,000-square-foot storefront location. The rental property will be priced at $35 per square foot, with an additional real estate tax of $9.50 per square foot per annum. Pet Élan will be

open for business six days a week (Monday through Saturday) from ten o'clock in the morning until seven o'clock in the evening. The store will be closed on Sunday. The owner will be the primary employee of Pet Élan for the first three months of operation. Beginning in the fourth month of operation, Pet Élan will hire one full-time sales associate. As the business grows, Pet Élan anticipates hiring a second full-time sales associate during the second year of operation. The full-time sales associates will assist the owner with customer service and other retail functions. It is estimated that the average Pet Élan customer will spend $18 per visit and will visit the store, on average, two times per month. For purposes of this feasibility study, Pet Élan will assume a 54 percent margin on goods sold. As the customer base grows, Pet Élan will need to have a significantly higher amount of inventory on hand to support increased demand. Pet Élan will contribute 5 percent of pretax profits to a local no-kill animal shelter on a quarterly basis. This contribution has been accounted for in the pretax net profit (loss) forecast. Operational expenses include items such as rent, utilities, advertising costs, and professional services assistance. Summary Financial Table The Financials—Summary table below shows a detailed monthly spreadsheet for year 1 and aggregated spreadsheets for years 2 and 3. Financials—Summary Table Summary: Table divided into four columns compares overall finances of a pet store based on time period of three years. Column 1 notes the account heads. Columns 2 to 4 are marked as: year 1; year 2; and year 3. Year 1 Year 2 Year 3 Revenue $296,740 $404,448 $458,304 Cost of goods sold 137,120 186,880 211,730 Gross margin 159,620 217,568 246,574 Operating expenses $ 147,907 $ 190,881 $ 201,744 Net profit (loss) pretax $ 11,713 $ 26,687 $ 44,830 Net profit (loss) pretax and post contribution (5%) $ 11,127 $ 5,345 $42,589 Page 114 Three-Year Detailed Financials Financials—Years 1–3 Table Summary: Table divided into eight columns summarizes total breakeven sales of a pet store based on income and operating expenses. Column 1 notes the account heads. Columns 2 to 8 are marked as: month 1 September; month 2 October; month 3 November; month 4 December; month 5 January; month 6 February; and month 7 March. Month 1 September Month 2 October Month 3 November Month 4 December Month 5 January Month 6 February Month 7 March Sales $11,620 $16,900 $ 20,060 $27,460 $ 20,060 $21,120 $24,290 Less cost of goods sold $5,370 $7,810 $9,270 $ 12,690 $9,270 $9,760 $11,220 Gross margin $ 6,250 $ 9,090 $10,790 $14,770 $10,790 $11,360 $ 13,070 Operating expenses Utilities 185 160 165 180 200 200 180 Salaries 2,500 2,500 2,500 2,500 2,500 2,500 2,500 Labor — — — 2,125 2,125 2,125 2,125 Payroll taxes and benefits 313 313 313 578 578 578 578 Advertising 300 300 300 300 300 300 300 Website 20 20 20 20 20 20 20 Office supplies 150 75 50 50 50 50 50 Insurance 250 250 250 400 400 400 400 Maintenance and cleaning 50 50 50 50 50 50 50 Legal and accounting 350 350 350 350 350 350 350 Licenses 300 — — — — — — Bags, paper, etc. 150 150 200 250 250 250 300 Telephone 85 85 85 85 85 85 85 Miscellaneous 200 200

200 200 200 200 200 Rent 5,833 5,833 5,833 5,833 5,833 5,833 5,833 Total operating expenses (fixed costs): 10,686 10,286 10,316 12,921 12,941 12,941 12,971 Gross profit (loss) (4,436) (1,196) 475 1,849 (2,151) (1,581) 99 Contribution to charity (5% of net): — — 24 92 — — 5 Net profit (loss) pretax: (4,436) (1,196) 451 1,756 (2,151) (1,581) 94 First year fixed costs (FC) $ 147,910 Contribution margin ratio (CMR) (sales – cogs)/sales) 53.8% Annual breakeven sales (FC/CMR) $274,970 Average monthly breakeven sales $22,910 Page 115 Table Summary: Table divided into eight columns summarizes net profit of a pet store based on sales and other expenses. Column 1 notes the account heads. Columns 2 to 8 are marked as: month 8 April; month 9 May; month 10 June; month 11 July; month 12 August; total – year 1; total – year 2; and total –year 3. Month 8 April Month 9 May Month 10 June Month 11 July Month 12 August Total - Year 1 Total - Year 2 Total - Year 3 $26,400 $28,510 $31,680 $35,900 $32,740 $296,740 $404,448 $458,304 $ 2,200 $13,170 $14,640 $16,590 $15,130 $137,120 $ 186,880 $ 211,730 $ 14,200 $15,340 $17,040 $ 19,310 $17,610 $159,620 $ 217,568 $246,574 170 165 185 185 185 2,160 2,280 2,400 2,500 2,500 2,500 2,500 2,500 30,000 30,000 33,000 2,125 2,125 2,125 2,125 2,125 19,125 51,000 56,088 578 578 578 578 578 6,141 10,125 11,136 300 300 300 300 300 3,600 4,800 4,800 20 20 20 20 20 240 360 384 50 50 50 50 50 725 1,200 1,440 400 400 400 400 400 4,350 6,600 6,840 50 50 50 50 50 600 720 840 350 350 350 350 350 4,200 4,800 5,280 — — — — — 300 300 300 300 300 300 300 3,050 4,800 5,040 85 85 85 85 85 1,020 1,200 1,500 200 200 200 200 200 2,400 2,700 2,700 5,833 5,833 5,833 5,833 5,833 69,996 69,996 69,996 12,961 12,956 12,976 12,976 12,976 147,907 190,881 201,744 1,239 2,384 4,064 6,334 4,634 11,713 26,687 44,830 62 119 203 317 232 586 1,334 2,242 1,177 2,265 3,861 6,017 4,402 $ 11,127 $ 25,345 $ 42,589 Page 116 Start-Up Budget Initial Calculations Table Summary: Table divided into three columns summarizes data for calculating money required to start a business venture. The column headers are marked from left to right as: fixed costs (FC) monthly; and annually. Cost Assumptions First Year of Operations Fixed costs (FC) Monthly Annually Lease payment ($35/sq. ft.) $ 5,833 $ 70,000 Utilities 200 2,400 Insurance 833 10,000 Salary of owner 2,500 30,000 Salary of sales assistant 2,125 25,500 Advertising 200 2,400 General supplies 300 3,600 Professional services 667 8,000 Miscellaneous expenses 417 5,000 Website 20 240 Total 13,095 157,140 Variable costs (VC) Monthly Annually Cost of goods sold 11,427 137,120 Total 28,250 339,000 Breakeven amount Monthly Annually Contribution margin ratio (CMR) 53.8% 53.8% Breakeven (FC/CMR) $ 24,340 $292,082 Daily Monthly Annually Breakeven number of customers 45 1,352 486,803 Assumptions: Rental location will be 2,000 sq. ft. Average customer spends $18 per visit and comes to the store on average twice per month. One-time start-up costs Licensing and permits $ 300 Decorating $ 800 Signage $ 5,000 Beginning inventory

$ 40,000 Fixtures and equipment $ 6,000 Professional fees (accountant, attorney) $ 5,000 Total $ 57,100 Source: This feasibility study, including text, art, and tables, was developed by Laurel Ofstein, a student at DePaul University in May 2005, under the direction of Professor Lisa Gundry of DePaul University. Reprinted with permission. It was revised in 2019 by Jerome Katz to reflect updated headings that fit better with the IDEO screen and business plan outline. Wherever possible, the text and numbers are the same as from the original study.

PART TWO Small Business Paths and Plans • CHAPTER 5: Small Business Entry: Paths to Part-Time Entrepreneurship • CHAPTER 6: Small Business Entry: Paths to Full-Time Entrepreneurship • CHAPTER 7: Small Business Strategies: Imitation with a Twist • CHAPTER 8: Business Plans: Seeing Audiences and Your Business Clearly